



ROCKVILLE, MARYLAND

March 31, 2009

Mr. James H. DeGraffenreidt, Jr.  
President  
Maryland State Board of Education  
200 West Baltimore Street  
Baltimore, Maryland 21201

Dear Mr. DeGraffenreidt:

Pursuant to Section 5-202(d)(7) of Maryland Code, Education Article, Montgomery County hereby requests a waiver from the State's Maintenance of Effort (MOE) requirement as defined under Section 5-202(d)(1)-(6). The basis for this request is that the County's fiscal condition significantly impedes us from funding the MOE requirement without seriously impairing other County services, including public safety, services to the most vulnerable residents, post-secondary education, library and recreation services, and other vital locally funded public programs.

As defined under the Education Article, the County's local funding obligation for K-12 Public Education in FY10 would be \$1,529,554,447 in order to maintain per pupil spending constant at \$11,249 (as defined under the Education Article). The County Executive's Recommended FY10 Operating Budget includes local funding of \$1,454,702,161, a difference of \$74,852,285 from the amount required under the Education Article. However, given that the Maryland General Assembly is considering additional reductions in local aid that could be more than \$50 million for Montgomery County and could severely impact local services, we are requesting a waiver in the amount of \$94,852,285. In requesting this amount for the waiver, we are committed to not reducing any educational programs recommended by the Montgomery County Board of Education in its FY10 Recommended Budget.

We are also committed to appropriating local funding that, when combined with State education aid for Montgomery County Public Schools (MCPS), is no less than \$1,929,265,335, and to appropriating exclusively for public school purposes all mandated State and Federal aid, including all grants that are received.

This is the first time that Montgomery County has requested such a waiver. With the exception of FY92, when Maryland permitted a State-wide waiver of the MOE requirement, Montgomery County has not only met the MOE requirement, but significantly exceeded it. In the last ten years Montgomery County has increased its local contribution to K-12 Education by

over \$710 million to over \$1.5 billion. This represents an 86.6 percent increase in local funding – an average annual increase of 6.4 percent – which has enabled us to reduce class size, raise test scores, and meet the needs of the growing number of students eligible for FARMS and ESOL services. During the same period, student enrollment grew by only 7.8 percent. This represents a substantial and ongoing local commitment to investing this County's taxpayer funds in educating our children. In addition, the County's FY09-14 Approved Capital Improvements Program (CIP) budget includes over \$1.2 billion in locally supported funding for school construction, renovation, information technology, and other capital improvements in support of K-12 public education.

In addition to the County's local contribution to MCPS, the County Government also funds over \$37 million to operate several programs in support of the Public Schools' mission, including:

- School Safety: providing 177 Crossing Guards with seven Police Officer positions in support, at a cost of \$5.3 million;
- School Safety: providing 31 Police Officers as Educational Facility Officers assigned to 25 Public High Schools and two Middle Schools, at a cost of \$3.8 million;
- School Health: Providing 318 positions including nurses and health room technicians, at a cost of \$19.8 million;
- Wellness: Funding for various wellness programs, including School Suspension programs; reading, tutoring and mentoring programs; Infant and Toddlers programs; and Pre-Kindergarten programs, at a cost of \$3.5 million; and
- Linkages to Learning: providing early intervention services to students and families of elementary and middle school communities with the highest indicators of poverty to address non-academic issues that may interfere with a child's success at school, at a cost of \$4.9 million.

In developing the County's FY10 operating budget, Montgomery County was faced with closing a budget shortfall of nearly \$600 million. The causes of this serious shortfall were the national economic recession and the continuing international crisis in credit markets. Since May 2008, when the County Council approved the FY09 operating budget, the County has revised its FY09 and FY10 revenue projections downward by over \$340 million due to reductions in income, transfer, and recordation tax revenue, investment income, and State Highway User Aid. This revenue loss is nearly 10 percent of our total annual tax supported revenues. Attached is a copy of the County's latest review of economic indicators. In addition, some pertinent facts provided below indicate how the recession has impacted Montgomery County residents and led to this sharp decrease in revenues:

- Since December 2007, Montgomery County's unemployment rate has increased by 84 percent to 4.6 percent in January 2009. This is the highest level of unemployment in Montgomery County since 1990.
- Resident employment has been stagnant since calendar year 2006, with no increase in resident employment, despite the entry of thousands of residents into the job market.

- Home sales have declined 17.8 percent in 2008, 23.4 percent in 2007, and 20.5 percent in 2006.
- Average home sale prices have declined 11.9 percent in 2008. The most recent residential assessments plummeted 16.3 percent.
- The value of new residential construction (~\$400,000,000) in CY2008 was the lowest since 1999.

These economic factors have dramatically affected the County's revenue collections for income, transfer, and recordation taxes. Moreover, the Federal Reserve rate cuts have reduced projected FY10 investment income by nearly 60 percent.

To close the budget deficit, produce a balanced budget, and fund essential services including K-12 Education, the County Executive and the County Council have made a number of significant budget reductions for FY09, and the County Executive has also recommended major reductions for FY10, including the following:

- Total mid-year FY09 reductions of \$48.8 million in Montgomery County Government, Montgomery College, the Maryland-National Capital Park and Planning Commission, and MCPS;
- Total FY10 reductions of \$130.4 million across the same four agencies;
- The abolishment of nearly 400 positions in Montgomery County Government, with nearly half of these positions filled;
- The elimination of all General Wage Adjustments for all employees across all agencies of local government;
- The elimination of the planned \$25 million increase in pre-funding of retiree health insurance;
- A reduction of \$50 million in current revenue funding to the capital budget; and
- A reduction in the County's reserve of nearly \$40 million.

If the County were required to fund the additional \$94.8 million local contribution, it would mean even deeper reductions in locally funded services, at a time when local crime rates are rising and the need for emergency assistance for individuals and families in crisis is steeply increasing.

Montgomery County has benefited in several ways from funding received or expected to be received from the Federal Fiscal Stabilization Act and the American Recovery and Reinvestment Act of 2009. In FY10, MCPS will receive \$6.1 million for Title I programs for disadvantaged children and \$15.3 million for Individuals with Disabilities Education Act (IDEA) programs. The Title I funding will be used to add three schools to receive Title I funding and add eight new full-day Head Start classes, so that all Title I schools that have Head Start classes can offer full-day Head Start classes. The Title I funding will also allow recipient schools to restore teacher positions to reduce class size, support reading and mathematics intervention, and provide ESOL support. The IDEA funding will allow for the restoration of reductions originally proposed for

the FY10 budget, including 20.5 special education teachers, five secondary intensive reading teachers, and tuition for students in non-public placement, special educational instructional materials. The IDEA funding will also allow the addition of hours based staffing at 15 additional middle schools, technology to implement the Universal Design for Learning program, and other program improvements. The additional funding from the Title I grants and IDEA grants, however, are targeted grants for specific purposes and does not represent general aid. While a portion of this funding will allow MCPS to restore certain positions and activities that may have otherwise been eliminated in the FY10 budget, this aid generally did not have a positive or negative impact on meeting the State MOE requirement.

In addition, on February 20, 2009, Governor O'Malley announced more than \$720 million of funding for Maryland public education resulting from the American Recovery and Reinvestment Act. Under the Governor's plan, every school district in Maryland will be made whole and the Geographic Cost of Education Index (GCEI) will be funded at 100 percent for the first time. For Montgomery County this meant an increase of \$21.6 million in funding. The Governor's proposal also included restoration of proposed reductions in supplemental grant and non-public placement funding to local school systems. For Montgomery County, this meant an increase of \$4.8 million in funding. The anticipated receipt of this funding in the FY10 budget allowed the County to limit the amount of this waiver request by approximately \$26.4 million.

While we are still exploring other formula funding and competitive grant opportunities under the ARRA, Montgomery County Government and other local public agencies expect to receive approximately \$36 million in funding for a variety of specific purposes, including transportation projects, bus replacement, workforce training, energy projects, public safety equipment, housing, weatherization, emergency shelter grants, Community Development Block Grants, homelessness prevention, and Community Services Block Grants. Since this funding is targeted for specific purposes and frequently carries standard Federal non-supplantation requirements, it cannot be used to supplement the County's local contribution or provide capacity for Montgomery County to increase its local contribution for K-12 schools.

We are confident that granting this waiver request will not adversely affect the quality of our local public schools. In fact, the County Executive's recommended budget for FY10 would fund nearly 99 percent of the Montgomery County Board of Education's request. The only recommended reductions are to additional funding increases requested for certain benefit funds, including additional pre-funding for retiree health insurance (\$12.3 million), the employee health insurance benefit fund (\$7.1 million), and the MCPS Employees' Retirement and Pension Systems Plan (\$4.3 million). These reductions can be made without affecting the existing level of benefits for these employees.

In addition, as you are aware, the State has recently revised downward its own revenue estimates for FY09 and FY10 by over \$1 billion. This has very troubling implications for Montgomery County and other subdivisions across the State because of impending reductions in local aid formulas that may be necessary to produce a balanced budget for the State. Further



reductions in local aid will require Montgomery County to identify additional programmatic and service reductions to its own residents to maintain a balanced and sustainable budget.

Montgomery County's ability to raise further revenue from additional local taxes has two major constraints. First, Section 305 of the Montgomery County Charter (see attached) requires the unanimous vote of the nine members of the County Council to increase real property tax revenue beyond the rate of inflation (less new construction and other minor categories). We do not support such an increase in the property tax rate, since it would impose an additional burden on families and businesses during this difficult economic time, and also given the fact that the County exceeded the limits imposed by Section 305 of the Charter in FY09 (an increase of 13 percent). Second, Montgomery County's income tax rate is currently at the State-allowed maximum rate, 3.2 percent.

In closing, we want to stress that education, especially K-12 Education, is one of the most important priorities of Montgomery County. We are very proud of the accomplishments of our Public School system in reducing class size, significantly improving test scores, and preparing our children to be productive, well-educated, and responsible citizens. We are committed to investing the resources necessary to achieve these important results for our County and the State.

However, the severity and duration of the current economic recession and the consequent reduction in revenues leave us no responsible choice except to temporarily reduce the County's local contribution. The Montgomery County Board of Education leadership, working collaboratively with the County Executive and County Council, is aware of this waiver application, and will recommend support for the waiver provided that the funds for educational programs recommended by the Montgomery County Board of Education are not reduced. We urge the State Board of Education to approve this request with all deliberate speed in view of the County's fast-approaching budget deadlines. Thank you for your consideration.

Sincerely,



Isiah Leggett  
Montgomery County Executive



Phil Andrews, President  
Montgomery County Council

IL/PA:jb

- c: Anthony South, Executive Director, Maryland State Board of Education  
Montgomery County Council  
Shirley Brandman, President, Montgomery County Board of Education  
Jerry D. Weast, Ed.D, Superintendent, Montgomery County Public Schools  
Richard S. Madaleno, Jr., Senator, District 18  
Brian J. Feldman, Delegate, District 15

Attachments:

- Tax Supported Current Revenue FY09-FY10<sup>1</sup>
- March Revenue Update FY08-10 Reflecting County Executive Recommended Budget
- Revenues: Excerpt from County Executive's Recommended FY10 Operating Budget
- Section 305 of the Montgomery County Charter: Approval of the Budget; Tax Levies
- Comprehensive Annual Financial Reports (Audited) FYs 2006-2008
- County Executive's Recommended FY10 Operating Budget
- Approved Montgomery County Operating Budget FY2009
- Supplemental Information on County Fiscal Condition for FY09 and FY10:
  - Presentation of Economic Indicators: Montgomery County Economic Indicators (Montgomery County Department of Finance, prepared March 2009)
  - FY09 Operating Budget Issues, Memo from County Executive Isiah Leggett to Council President Michael J. Knapp, September 4, 2008
  - FY09 Savings Plan, Memo from County Executive Isiah Leggett to Council President Michael J. Knapp, November 13, 2008
  - County Council Approval of FY09 Savings Plan, November 25, 2008
  - Fiscal Plan Update, Memo from County Executive Isiah Leggett to Council President Michael J. Knapp, December 1, 2008
  - FY09 and FY10 Required Budget Actions, Memo from County Executive Isiah Leggett to County Government Department Heads, December 17, 2008

---

<sup>1</sup> Additional information on County Revenue Streams can be found in the County Executive's Recommended FY10 Operating Budget pages 5-1 to 5-22 and 72-1 to 72-20.

**MONTGOMERY COUNTY GOVERNMENT  
REVENUE SUMMARY: TAX SUPPORTED BUDGETS**

<b>A REVENUE CATEGORIES</b>		<b>B Approved FY09</b>	<b>C Estimate FY09</b>	<b>D % Change FY09-10</b>	<b>E % Change FY09-10</b>	<b>F Recommended FY10</b>
		5-22-08	3-15-09	Rec/Bud	Rec/Est	3-15-09
	<b>TAXES</b>					
1	Property Tax (less PDs)	1,364.9	1,365.7	5.4%	5.3%	1,438.7
2	Income Tax	1,325.4	1,281.8	-8.3%	-5.2%	1,214.8
3	Transfer Tax	80.9	60.3	-19.7%	7.8%	65.0
4	Recordation Tax	68.1	48.8	-23.8%	6.4%	51.9
5	Recordation Tax Premium	0.0	3.5	0.0%	85.7%	6.5
6	Energy Tax	132.7	128.4	-1.8%	1.5%	130.4
7	Telephone Tax	30.9	31.6	6.5%	4.0%	32.8
8	Hotel/Motel Tax	19.9	18.7	0.7%	6.9%	20.0
9	Admissions Tax	2.4	2.1	-9.7%	3.9%	2.1
10	<b>Total Local Taxes</b>	<b>3,025.1</b>	<b>2,940.8</b>	<b>-2.1%</b>	<b>0.7%</b>	<b>2,962.2</b>
11						
12	<b>INTERGOVERNMENTAL AID</b>					
13	Highway User	39.7	32.9	-16.7%	0.3%	33.0
14	Police Protection	13.5	13.4	0.1%	0.9%	13.5
15	Libraries	5.3	5.3	0.0%	0.0%	5.3
16	Health Services Case Formula	6.3	6.1	-3.0%	0.0%	6.1
17	Mass Transit	27.8	22.8	-18.0%	0.0%	22.8
18	Public Schools	399.3	423.5	17.8%	11.1%	470.4
19	Community College	31.5	30.3	6.2%	10.7%	33.5
20	Direct Reimbursements	26.0	28.0	6.8%	-0.8%	27.8
21	Other	12.6	11.3	-20.2%	-11.2%	10.0
22	<b>Subtotal State Aid</b>	<b>562.0</b>	<b>573.5</b>	<b>10.8%</b>	<b>8.5%</b>	<b>622.4</b>
23	Federal Aid	1.6	1.8	1.7%	-7.7%	1.7
24	<b>Total Intergovernmental Aid</b>	<b>563.6</b>	<b>575.3</b>	<b>10.7%</b>	<b>8.5%</b>	<b>624.1</b>
25						
26	<b>FEES AND FINES</b>					
27	Licenses & Permits	12.9	12.2	-7.4%	-2.4%	11.9
28	Charges for Services	52.2	51.4	26.3%	28.3%	65.9
29	Fines & Forfeitures	26.1	32.0	45.9%	18.7%	38.0
30	Montgomery College Tuition	68.6	68.8	3.7%	3.4%	71.1
31	<b>Total Fees and Fines</b>	<b>159.7</b>	<b>164.4</b>	<b>17.1%</b>	<b>13.7%</b>	<b>187.0</b>
32						
33	<b>MISCELLANEOUS</b>					
34	Investment Income	14.6	6.7	-59.8%	-12.1%	5.9
35	Other Miscellaneous	13.3	21.3	21.4%	-24.4%	16.1
36	<b>Total Miscellaneous</b>	<b>27.9</b>	<b>28.0</b>	<b>-21.2%</b>	<b>-21.5%</b>	<b>22.0</b>
37	<b>TOTAL REVENUES</b>	<b>3,776.3</b>	<b>3,708.6</b>	<b>0.5%</b>	<b>2.3%</b>	<b>3,795.3</b>
38	\$ Change from prior Budget					18.9

MARCH REVENUE UPDATE FY08 - 10 REFLECTING CE RECOMMENDED BUDGET

	FY08 Budget	FY08 May Est (FY09 Budget)	FY08 Prel. (Sept)	Difference	Nov Update	Sept - Nov Difference	FY09 Feb Update	Nov - Feb Difference	
Income	\$1,286,988	\$1,285,000	\$1,291,340	\$6,340	\$1,291,340	\$0,000			
Property	\$1,207,500	\$1,209,530	\$1,213,400	\$3,870	\$1,215,229	\$1,829			
Transfer/Recordation (1)	\$193,300	\$133,500	\$135,039	\$1,539	\$135,039	\$0,000			
Other Taxes (2)	\$171,100	\$169,900	\$168,700	(\$1,200)	\$168,733	\$0,033			
Investment Income	\$31,874	\$25,599	\$25,599	\$0,000	\$24,188	(\$1,411)	\$27,329	\$3,141	
Highway User Revenue	\$38,749	\$38,330	\$38,330	\$0,000	\$36,651	(\$1,679)			
					November Impact	(\$1,228)			

NOTES: September Update was based on economic information through August, and no actual distributions

(1) General fund only and includes controlling interest

(2) Other taxes include admissions/amusement, fuel/energy, telephone, and hotel/motel taxes

(3) Tax-supported at the Charter Limit via rate cut

(4) Tax-supported at the Charter Limit via credit

---

# Revenues

## INTRODUCTION

This chapter provides demographic and economic assumptions, including detailed discussions of the national, State and local economies. Revenue sources, both tax supported and non-tax supported, used to fund the County Executive's Recommended FY09 Operating Budget incorporate policy recommendations.

## ESTIMATING SIX-YEAR COSTS

### ***Demographic Assumptions***

The revenue projections of the Public Services Program (PSP) incorporate demographic assumptions based on Council of Governments (COG) Round 7.2 estimates, as prepared by M-NCPPC, and are based on fiscal and economic data and analyses used or prepared by the Department of Finance. A *Demographic and Economic Assumptions* chart located at the end of this chapter provides several demographic and planning indicators.

- County population, which was 949,600 in 2008, will continue to increase an average of approximately 10,800 persons each year throughout the next seven years reaching one million by 2013 and 1,025,000 by 2015. This reflects an average annual growth rate of 1.1 percent, which is below the average annual growth rate of 1.6 percent during the late 1990s.
- There were an estimated 356,000 households in the County in 2008 and current projections estimate the number of households to increase to 359,000 in 2009 and 362,000 by 2010. Household growth throughout the subsequent five years is now projected to grow at an average annual rate of 1.3 percent. As a result, current projections estimate 386,000 households by the by 2015.
- The County's senior population continues to grow with an estimated 104,591 persons 65 or older living here in 2005 and projected to increase to 134,838 by 2015.
- County births, which are one indicator of future elementary school populations and child day care demand, are projected to gradually increase, from an estimated 14,010 in 2009 to 14,880 by 2015.
- Montgomery County Public School enrollments are projected to increase moderately over the next six years. The County expects an enrollment increase of 4,432 students from FY10 to FY15.
- Montgomery College enrollments are projected to increase from 24,452 in September 2009 to 25,230 in September 2014 (FY15). These estimates are based on a continuation of growth in fall enrollment.

Using moderate economic and demographic assumptions to develop fiscal projections does not mean that all possible factors have been considered. It is likely that entirely unanticipated events will affect long-term projections of revenue or expenditure pressures. Although they cannot be quantified, such potential factors should not be ignored in considering possible future developments. These potential factors include the following:

- Changes in the level of local economic activity,
- Federal economic and workforce changes,
- State tax and expenditure policies,
- Federal and State mandates requiring local expenditures,
- Devolution of Federal responsibilities to states and localities,
- Local tax policy changes,
- Changes in financial markets,
- Major demographic changes,
- Military conflicts and acts of terrorism, and
- Major international economic and political changes.

## Policy Assumptions

Revenue and resource estimates presented are the result of the recommended policies of the County Executive for the FY10 budget. Even though it is assumed that these policies will be effective throughout the six-year period, subsequent Council actions, State law and budgetary changes, actual economic conditions, and revised revenue projections may result in policy changes in later years.

## Economic Assumptions

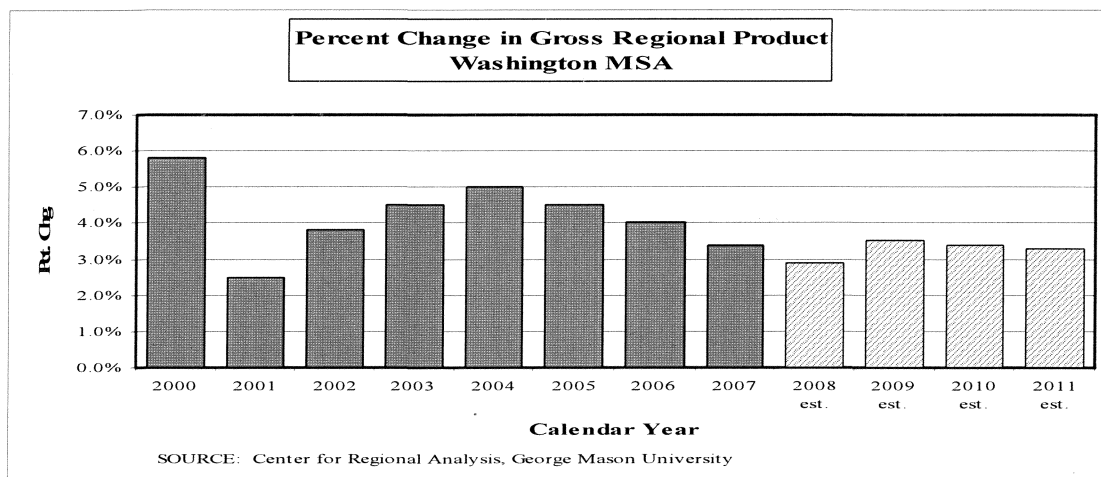
Revenue projections depend on the current and projected indicators of the national and local economy. National economic indicators also influence the County's revenue projections. Such indicators include short-term interest rates, mortgage interest rates, and the stock market. Local economic indicators include employment, residential and nonresidential construction, housing sales, retail sales, and inflation. The assumptions for each of those indicators will affect the revenue projections over the six-year horizon. Because of the large presence of the federal government, in terms of employment, procurement, and federal retirees, Montgomery County's economy, generally, does not experience the volatility that is experienced nationally.

The economic projections for the next six fiscal years assume a slow but sustainable growth rate. However, growth will be significantly weaker in the early part of this forecast period and dependent on the current forecasts for the national and regional economies. Such projections are dependent on a number of factors – fiscal and monetary policy, real estate, employment, consumer and business confidence, the stock market, mortgage interest rates, and geopolitical risks.

The national economy experienced an economic slowdown during calendar year 2008. For the year, real gross domestic product (GDP) grew 1.1 percent, the lowest rate since 2001 (0.8%), with much of the growth attributable to consumer purchases of services (↑1.5%), investment in non-residential construction (↑11.5%), exports (↑6.2%), and federal government spending (↑6.0%). The slowdown in the national economy is attributed to declines in real GDP during the third and fourth quarters of 2008 (↓0.5% and ↓6.2%, respectively). According to the Federal Reserve's (Fed) *Monetary Report to the Congress* (February 24, 2009), real GDP is expected to decline between 0.5 and 1.3 percent in 2009. That range is based on the Fed's assessment of "further intensification of the financial crisis and its effect on credit and wealth, the waning of consumer and business confidence, the market deceleration in global economic activity, and weakness in consumer spending and employment."

According to data from the Center for Regional Analysis, George Mason University, the gross regional product (GRP) for the Washington Metropolitan area grew between 2.0 and 3.0 percent in 2008, and is expected to grow between 1.0 and 2.0 percent in 2009. The Washington Coincident Index, which represents the current state of the region's economy, decreased 7.8 percent in 2008 (Dec. '08 over Dec. '07) and was the second consecutive year that the index declined. The Washington Leading Index, which estimates the performance of the regional economy six to eight months ahead, decreased 3.0 percent in 2008 (Dec. '08 over Dec. '07) and confirms the projected slowdown in the GRP for 2009.

Although at a slower pace, the Washington region continued to experience job growth. Between 2003 and 2006, the region's economy added an average of nearly 59,800 new jobs per year which was significantly above 22,900 new jobs created in 2007 and 29,200 in 2008. From 2006 to 2008, the region's unemployment rate increased slightly from 3.1 percent in 2006 to 3.8 percent in 2008, one of the lowest among the nation's largest metropolitan areas.



Montgomery County experienced mixed economic activity during 2008. The primary reasons for the County's mixed performance were no growth in resident employment, the contraction of construction particularly residential construction, a dramatic decline in home sales, and decline in consumer spending. Resident employment at 498,043 in 2008 has not increased since either 2006 (498,078) or 2007 (498,279). Residential construction activity continued to decline in the County during 2008. The number of projects was down 8.3 percent from the previous year, the value added was also down for the second year in a row. Home sales in the County declined nearly 18 percent during the year compared to 2007 and average housing prices declined 8.4 percent after increasing 3.9 percent in 2007, 4.4 percent in 2006, and over 18 percent annually in both 2004 and 2005. The unemployment rate increased from 2.5 percent in December 2007 to 3.9 percent in December 2008.

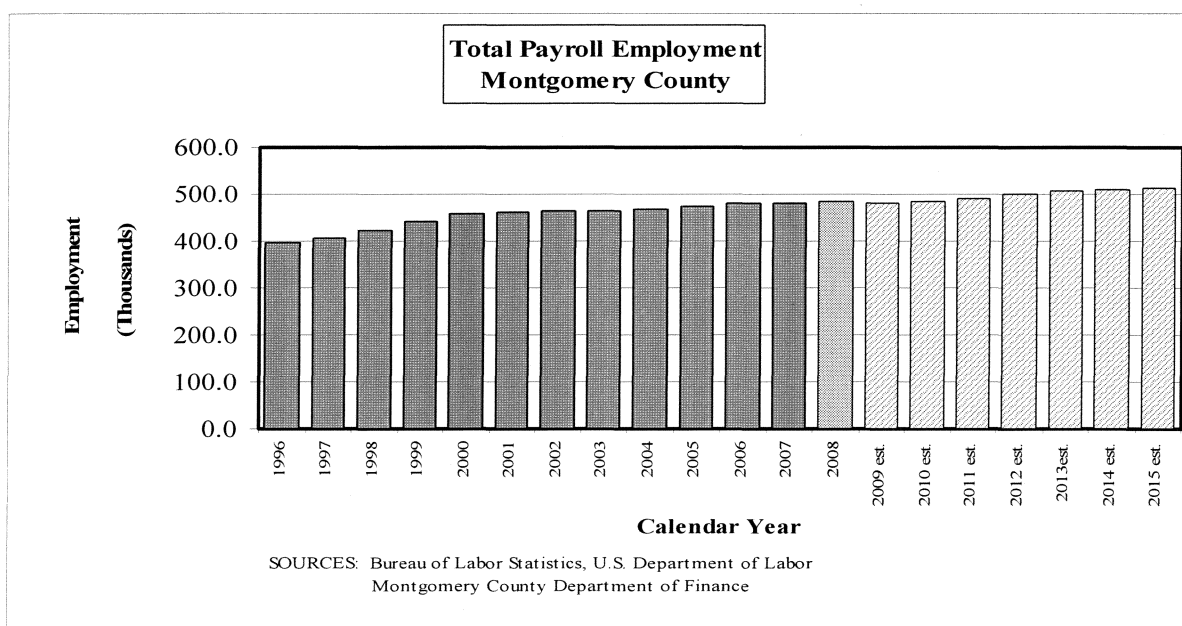
It is against this backdrop of weaker economic growth, a significant decline in home sales, and weak construction activity that the Department of Finance (Finance) estimates a decline in employment in 2009, a slight deceleration in the growth of total personal income, and much lower yields on investment attributed to the policy of the Federal Reserve Board through calendar 2008.

### ***Employment Situation***

During the past thirteen years, total payroll employment in Montgomery County, which is based on the survey of establishments, experienced two distinct cycles: significant growth from 1996 to 2000 of 3.59 percent per year, and a period of weak growth between 2000 and 2008 with an average annual growth rate of 0.65 percent. The Department of Finance (Finance) assumes payroll employment to grow, on average, 0.88 percent per year between 2008 and 2015. In terms of the number of jobs added to the County's total payroll employment, an average of 4,350 new jobs are added each year between 2008 and 2015, well below the average of 7,065 per year between 1996 and 2008.

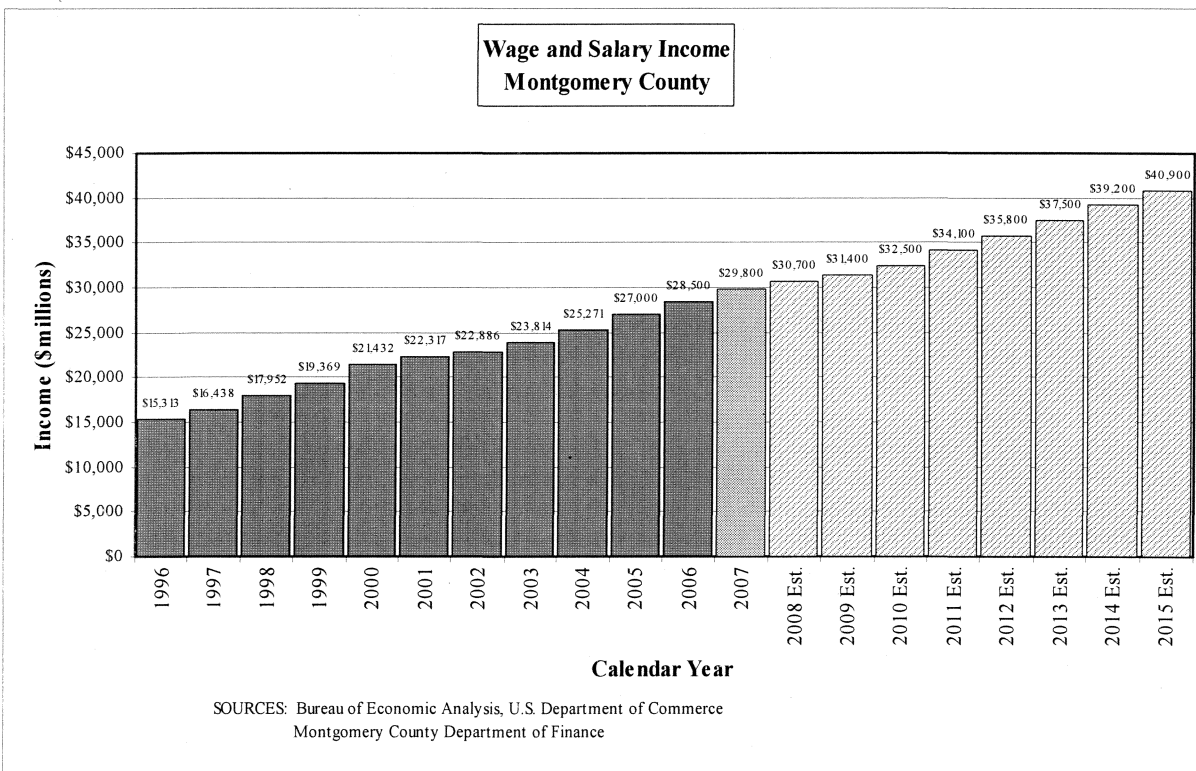
Based on data derived by Finance, the County's employers added only 1,800 jobs ( $\uparrow 0.4\%$ ) in 2008. While payroll employment made modest gains during this period. Data from the labor force series reported that employment based on place of residence rather than place of employment experienced virtually no increase in 2008. While resident employment experienced no growth, especially in the final four months of 2008 when employment among County's residents declined by nearly 5,600 compared to the same period in 2007, the unemployment rate for the County increased. For the entire year, the County's unemployment rate was 3.2 percent – up from the 2.7 percent in 2007. The low unemployment rate compared to the State and the nation suggests that the public sector is providing a stable foundation against significant labor market volatility experienced at the national level.

Based on this assessment of the employment situation in Montgomery County, the Department of Finance assumes that payroll employment will decrease 0.4 percent in 2009 followed by an increase of only 0.3 percent in 2010. Employment among County residents is expected to decline 0.3 percent in 2009 and increase 0.8 percent in 2010. However, the number of jobs is one indicator of the County's labor market, the other factor is the growth in wages and salaries.





From 2000 through 2008, average weekly wages are expected to have increased from \$840 to \$1,210 – an average annual increase of 4.67 percent. Finance estimates that average weekly wages will increase to \$1,575 by 2015 – an average annual increase of 3.84 percent. Since Finance assumes wage and salary income to grow 4.10 percent per year between 2008 and 2015, total wage and salary income is expected to reach \$40.9 billion dollars by 2015.



As a result of modest job growth and gains in wages and salaries, Finance assumes that total personal income grew only 3.8 percent in 2008 compared to 6.6 percent in 2007. Total personal income is assumed to grow at an average annual rate of 4.5 percent between 2008 and 2015, which is lower than the ten-year average of 5.8 percent between 1998 and 2008.

### ***Construction Activity***

Construction is a cyclical activity that can have a significant effect on a local economy and employment owing to secondary and tertiary effects on construction supply and service industries. Permits and starts are key indicators of the near-term economic condition of the housing industry and are considered leading indicators for the local economy. Of lesser note, new single-family home sales and construction outlays are important indicators for monitoring the level of current investment activity. Construction starts measure initial activity as opposed to permits, which measure planned activity. However, permits and starts closely track each other and therefore, a four-month moving average provides a more reliable indicator of the housing trend compared to month-to-month changes. The primary source of construction data is McGraw-Hill Construction, formerly known as Dodge Analytics.

The value of new non-residential construction in the County added to the property tax base increased 71.5 percent in calendar year 2008 from \$693.7 million to \$1,189.4 million. The dramatic increase in the value was led by two hospital and health facilities (\$615.8 million). Excluding those facilities, the additional value of non-residential construction declined 17.3 percent. In 2008, the value of new commercial activity declined 21.5 percent to \$319.2 million compared to 2007 (\$406.4 million). The value of other non-residential construction, which includes manufacturing, education and science, hospital and

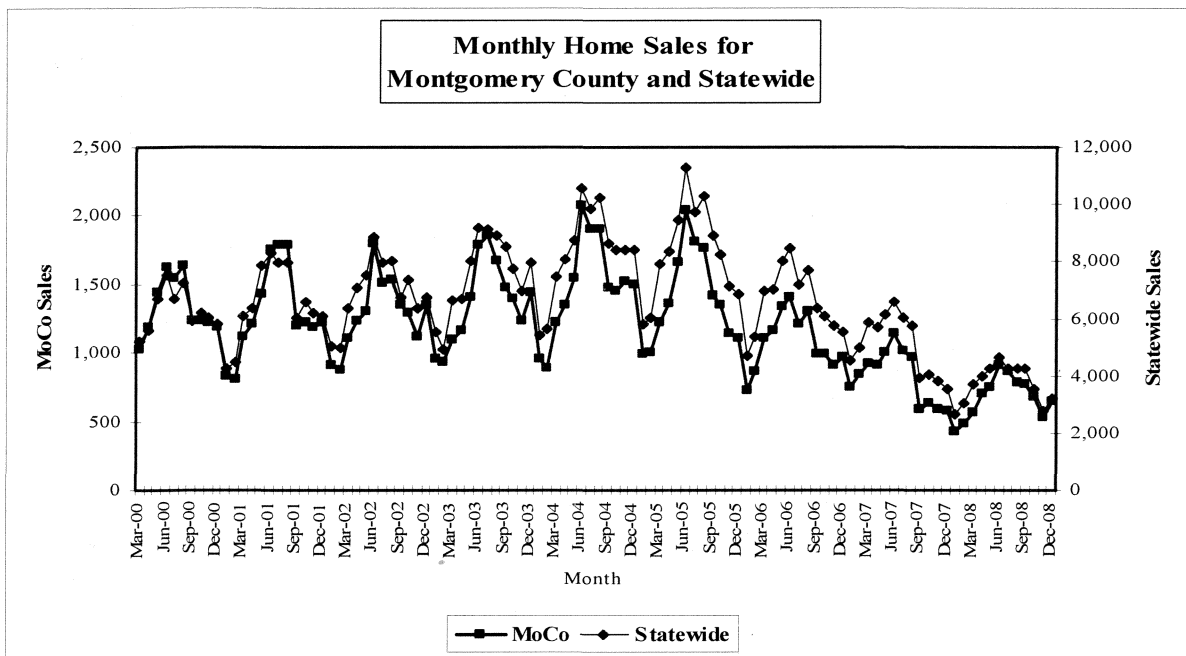
health treatment facilities excluding the two health facilities, added to the property tax base decreased 11.5 percent in 2008 from \$287.3 million to \$254.4 million.

The decline in non-residential construction can be attributed to an increase in the vacancy rate for Class A property in the fourth quarter of 2008 to its highest level since the first quarter of 2005. While that rate is slightly below the regional average of 11.0 percent, it represents an uninterrupted series of increases that began in the second quarter of 2006.

The value of additional residential property declined 40.2 percent in 2008, which followed a modest increase of 0.8 percent in 2007. The value of new residential construction stood at \$430.1 million in 2008, which was significantly below the previous five-year annual average of \$712.7 million. Because of the high inventory-to-sales ratio for existing homes experienced in 2008, Finance assumes that the value of new residential construction will decline in calendar year 2009 to the level experienced prior to the housing construction boom that began in 2001.

### ***Residential Real Estate***

Sales of existing homes in Montgomery County continued to decline significantly in terms of volume and average sales price in 2008. Home sales in Montgomery County declined 17.8 percent in 2008, which followed declines of 20.5 percent in 2006 and 23.4 percent in 2007. For the first time in over a decade, average home prices declined 7.6 percent in 2008, which followed increases of 4.4 percent and 3.9 percent for 2006 and 2007, respectively. The large drop in sales was reflected in the dramatic increase in the inventory-to-sales ratio. For example, there was an increase in the ratio from one seller to one buyer in June 2005 to a ratio of eight sellers to one buyer by December 2008.



### ***Retail Sales***

Using sales tax receipts as a measure of the level of retail sales for the County, purchases of durable and nondurable goods adjusted for the rate increase from 5 percent to 6 percent decreased 12.2 percent in 2008 compared to decreases of 4.6 percent in 2006 and 8.7 percent in 2007. The sale of nondurable goods, which includes food and beverage, apparel, general merchandise, and utilities and transportation, increased 1.1 percent.

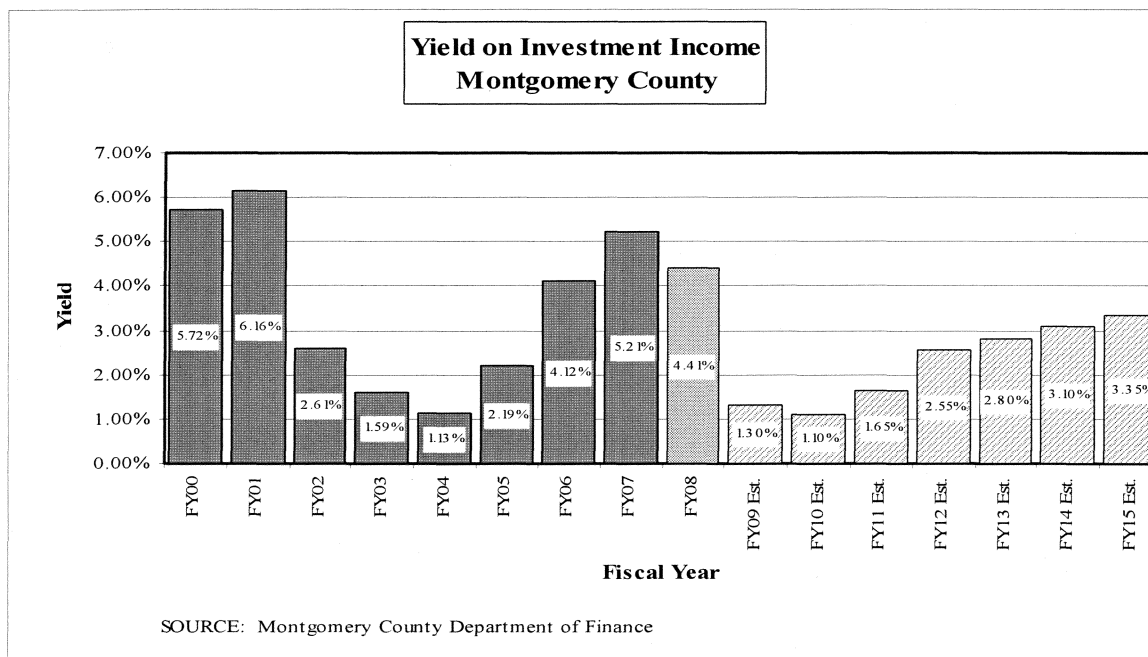
Sales of utilities and transportation ( $\uparrow 7.3\%$ ) and food ( $\uparrow 0.3\%$ ) led purchases of nondurable goods in 2008. Sales of furniture and appliances ( $\downarrow 18.5\%$ ) and hardware, machinery, and equipment ( $\downarrow 11.4\%$ ) led the decline in purchases of durable goods.

### ***Consumer Prices and Inflation (annual rates)***

As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore consolidated statistical metropolitan area was slightly above the national average in 2008 (4.5% compared to 3.8%, respectively). While overall price increases were largely attributed to high energy prices during the first half of 2008, the “core” inflation rate, which is the CPI excluding the volatile food and energy prices, increased 2.9 percent for the region compared to the nation’s 2.3 percent. Finance assumes that the overall inflation rate, which is the percent change in the annual regional index, will moderate gradually from 4.5 percent in 2008 to 2.5 percent by 2015.

### Interest Rates

Beginning September 2007 to January of this year, the Federal Reserve Board, through its Federal Open Market Committee, has aggressively cut the effective target rate on federal funds from 5.25 percent to a range of 0.00-0.25 percent. The ten rate cuts were in response to the credit crisis that has significantly affected the financial markets (both bonds and stock markets) and the national economy since the summer of 2007. Based on data from the Federal Funds futures market (Chicago Board of Trade), Finance assumes that the FOMC will maintain its current position of an effective target rate of 0.00-0.25 percent through the first three quarters of calendar year 2009 at which time interest rates may increase modestly during the final quarter of this year. Since the yield on the County’s short-term investments are highly correlated with the federal funds rate, Finance estimates that the County will earn an average yield of 1.30 percent on its short-term portfolio for FY09 and 1.10 percent for FY10 – the lowest yield since FY04.



## REVENUE SOURCES

The major revenue sources for all County funds of the Operating Budget and the Public Services Program are described below. Revenue sources which fund department and agency budgets are included in the respective budget presentations. Six-year projections of revenues and resources available for allocation are made for all County funds. This section displays projections of total revenues available for the tax supported portion of the program. Tax supported funds are those funds subject to the Spending Affordability Guideline (SAG) limitations. The SAG limitations were designed and intended to provide guidance prior to the preparation of the recommended budget as to the level of expenditure that is affordable based on the latest revenue estimates.

The PSP also includes multi-year projections of non-tax supported funds. These funds represent another type of financial burden on households and businesses and, therefore, should be considered in determining the "affordability" of all services that affect most of the County's population. Projections for non-tax supported funds within County government are presented in the budget section for each of those funds.

---

## **IMPACT ON REVENUES AND THE CAPITAL BUDGET**

The use of resources represented in this section includes appropriations to the Operating Funds of the various agencies of the County as well as other resource requirements, such as current revenue funding of the Capital Budget, Debt Service, and Fund Balance (operating margin). These other uses, commonly called "Non-Agency Uses of Resources," affect the total level of resources available for allocation to agency programs. Some of these factors are determined by County policy; others depend, in part, on actual revenue receipts and expenditure patterns.

The level of PSP-related spending indirectly impacts the local economy and, hence, the level of County revenues. However, the effect on revenues from expenditures of the Executive's Recommended Operating Budget and PSP are expected to be minimal. The PSP also impacts revenues available to fund the Capital Budget. The revenue projections included in this section subtract projected uses of current revenues for both debt eligible and non-debt eligible capital investments. Therefore, the Executive's Recommended Operating Budget and PSP provide the allocations of annual resources to the Capital Budget as planned for in the County Executive's Amendments to the FY09-14 CIP (as of January 15, 2009). Current revenue adjustments to the January 15, 2009 CIP have been made as part of the Executive's Recommended Operating Budget.

### **Prior Year Fund Balance**

The prior year fund balance for the previous fiscal year is the audited FY08 closing fund balance for all tax supported funds. The current year fund balance results from an analysis of revenues and expenditures for the balance of the fiscal year. Prior year fund balance for future fiscal years is assumed to equal the target fund balance for the preceding year.

### **Net Transfers**

Net transfers are the net of transfers between all tax supported and non-tax supported funds in all agencies. The largest single item is the transfer from the General Fund to Montgomery Housing Initiative to support the Executive's housing policy. The payment from the General Fund to the Solid Waste Disposal Fund for disposal of solid waste collected at County facilities is the next largest transfer to a non-tax supported fund. These are offset by transfers from non-tax supported funds, the largest of which is the earnings transfer from the Liquor Control Fund to the General Fund and the transfers for indirect costs from the non-tax supported funds. The level of transfers is an estimate based on individual estimates of component transfers.

### **Debt Service Obligations**

Debt service estimates are those made to support the County Executive's Amendments to the FY09-14 Capital Improvements Program (as of January 15, 2009). Debt service obligations over the six years are based on servicing debt issued to fund planned capital projects, as well as amounts necessary for short-term and long-term leases. Debt service requirements have the single largest impact on the Operating Budget/Public Services Program by the Capital Improvements Program. The Charter-required CIP contains a plan or schedule of project expenditures for schools, transportation, and infrastructure modernization. Approximately 52 percent of the CIP is funded with G.O. bonds. Each G.O. bond issue used to fund the CIP translates to a draw against the Operating Budget each year for 20 years. Debt requirements for past and future G.O. bond issues are calculated each fiscal year, and provision for the payment of Debt Service is included as part of the annual estimation of resources available for other Operating Budget requirements. As Debt Service grows over the years, increased pressures are placed on other PSP programs competing for scarce resources.

In accordance with the County's Fiscal Policy, these obligations are expected to stay manageable, representing less than 10.0 percent of General Fund revenues. Maintaining this guideline ensures that taxpayer resources are not overextended during fiscal downturns and that services are not reduced over time due to increased Debt Service burdens.

The State authorizes borrowing of funds and issuance of bonds up to a maximum of 6.0 percent of the assessed valuation of all real property and 15.0 percent of the assessed value of all personal property within the County. The County's outstanding G.O. debt plus short-term commercial paper as of June 30, 2008, is 1.2 percent of assessed value, well within the legal debt limit and safely within the County's financial capabilities.

### **CIP Current Revenue and PAYGO**

Estimates of transfers of current revenue and PAYGO to the CIP are based on the most current County Executive recommendations for the Capital Budget and CIP. These estimates are based on programmed current revenue and PAYGO funding in the six years, as well as additional current revenue amounts allocated to the CIP for future projects and inflation.

---

## **Revenue Stabilization**

Mandatory contributions to the Revenue Stabilization Fund (Rainy Day Fund) are made if certain revenues increase above their budgeted projections and/or if projected revenue growth is stronger than in a selected historical period. Revenues include County Income Tax, Transfer Tax, General Fund Investment Income, and Recordation Tax excluding the amount dedicated to the MCPS CIP and College information technology projects. The projection assumes that no mandatory transfer will be made to this fund at the end of FY09 leaving a fund balance of \$119.6 million, which is the result of lower than previously estimated income tax, transfer and recordation taxes, and investment income. Because of higher than expected revenue collections in ten of the twelve previous fiscal years (FY97-FY02 and FY04-FY07), in addition to the two discretionary transfers made in FY95 (\$10.0 million) and FY96 (\$4.5 million), the Revenue Stabilization Fund reached its maximum allowable fund size of \$119.6. There were no funds available in FY08 to transfer to the Fund as the mandatory contribution.

Since the fund has reached more than half of its maximum fund size, interest earned from the fund must fund PAYGO expenditures in the CIP fund. The estimate of the interest in FY09 is \$1.6 million. A similar funding of PAYGO from earned interest was made in FY02 (\$2.2 million), FY03 (\$1.3 million), FY04 (\$1.1 million), FY05 (\$2.4 million), FY06 (\$4.7 million), FY07 (\$6.2 million), and FY08 (\$5.8 million). Due to a projected growth in revenues, the maximum allowable fund size is projected at \$161.1 million by FY15. However, barring future discretionary or mandatory contributions to the fund, the fund will remain at the current \$119.6 million level through FY15.

## **Other Uses**

This category is used to set aside funds for such items as possible legal settlement payments and other special circumstances such as set-aside of revenues to fund future years.

## **Reserves**

The County will maintain total reserves for tax supported funds that include both an operating margin reserve and the Revenue Stabilization Fund (or "Rainy Day Fund"). For tax supported funds in FY10, the budgeted total reserve of the operating margin and the Revenue Stabilization Fund will be 5.0 percent of total resources (i.e., revenues, transfers, prior year undesignated and designated fund balance). Future year projections assume restoration of total tax supported reserves to 6.0 percent of total resources.

## **REVENUE ASSUMPTIONS**

Projections for revenues are included in six-year schedules for County Government Special Funds and for Montgomery College, M-NCPPC, and WSSC in the relevant sections of this document. See the MCPS Budget Document for six-year projections of MCPS funds. Projections for revenues funding County government appropriations are provided to the Council and public as fiscal projections. Such projections are based on estimates of County income from its own sources such as taxes, user fees, charges, and fines, as well as expectations of other assistance from the State and Federal government. The most likely economic, demographic, and governmental policy assumptions that will cause a change in revenue projections are included in this section.

## **TAX REVENUES**

Tax supported revenues come from a number of sources including but not limited to property and income taxes, real estate transfer and recordation taxes, excise taxes, intergovernmental revenues, service charges, fees and licenses, college tuition, and investment income. In order of magnitude, however, the property tax and the income tax are the most important with 39.7 percent and 32.0 percent, respectively, of the estimated total tax supported revenues in FY10. The third category is the combined real estate transfer and recordation taxes with a 3.3 percent share. In fact, these three revenue sources represent 73.2 percent of total tax supported revenues. Income and transfer and recordation taxes are the most sensitive to economic and, increasingly, financial market conditions. By contrast, the property tax exhibits the least volatility because of the three year re-assessment phase-in and the ten percent "homestead tax credit" that spreads out changes evenly over several years.

In the late 1990s and early 2000s, the property tax stood in the shadow of the income tax in terms of growth. In fact, in FY99 measured by General Fund revenues, the income tax surpassed the property tax for the first time as the largest tax source in the County. At the time, the low single-digit growth in property tax revenue was dwarfed by the double-digit growth in the income tax. But with all this explosive growth in the income tax also came considerable volatility. For that reason, it was a welcome sign to observe that the property tax – the most stable of all revenue sources – gained considerable ground at a time that the income tax experienced considerable weakness. Because of adhering to the Charter Limit through tax rate cuts and income tax offset credit, the growth rates in property taxes were lower than would have been under current rates. Due to the recent

---

economic weakness affecting the income tax, FY10 marks the second consecutive year since FY99 in which the property tax returns to the position as the largest tax supported revenue source.

## **Property Tax**

Using proposed rates and a recommended \$690 credit to meet the Charter Limit, total estimated FY10 tax supported property tax revenues of \$1,438.7 million are 5.3 percent above the revised FY09 estimate. The general countywide rate recommended for FY10 is \$0.661 per \$100 of assessed real property, while a rate of \$1.652 per \$100 is levied on personal property. In addition to the general countywide tax rate, there are special district area tax rates. The 1990 Charter amendment (FIT) limits the growth in property tax revenues to the sum of the previous year's estimated revenue, increased by the rate of inflation, and an amount based on the value of new construction and other minor factors. This Charter limit, however, may be overridden by a vote of nine members of the County Council. Growth in the previous calendar year's CPI-U for the Washington-Baltimore Consolidated Metropolitan Statistical Area is used to measure inflation. Since reassessments grew faster than the rate of inflation during the previous six fiscal years, current rates generate revenues that are \$168.9 million above the Charter limit for FY10 assuming the income tax offset (rebate) is used to achieve the Charter Limit. The County Executive's proposal to recommend an income tax offset credit (rebate) of \$690 for each owner-occupied residence reduces property tax revenues in FY10 by \$168.9 million below what the FY09 rates would have generated. As a result, property tax revenues in FY10 are reduced sufficiently to eliminate the variance between revenues at current rates and at the Charter Limit.

The countywide total property tax assessable base is estimated to increase 6.9 percent from a revised \$162.6 billion in FY09 to \$173.8 billion in FY10. The base is comprised of real property and personal property. In FY10, the Department of Finance estimates real property of approximately \$169.8 billion with the remaining \$4.0 billion in personal property. The growth in the total property base has fluctuated significantly over time, with an average of 10.2 percent growth during the late 1980s and early 1990s, followed by considerable deceleration with base growth generally close to an average 3.0 percent between FY93 and FY99. In FY00, the total property tax base increased 2.8 percent and since that time, it has improved steadily reaching 11.2 percent by FY08. Reflecting changes in new construction and a dramatic pick-up in reassessments, the real property tax base is expected to grow a revised 11.5 percent in FY09 and 7.0 percent in FY10.

The real property base is divided into three groups based on their geographic location in the County. Each group is reassessed triennially by the State Department of Assessments and Taxation (SDAT), which has the responsibility for assessing properties in Maryland. The amount of the change in the established market value (full cash value) of one-third of the properties reassessed each year is phased in over a three-year period. Declines in assessed values, however, are effective in the first year. Because of the different phase-ins of increases and declines during periods of modest reassessment growth, the reassessment cycle for a particular group may produce either no growth or a decline in the first year, followed by reassessment gains in the two subsequent years. The decline in reassessments effective for FY10 for Group III of 10.6 percent (↓16.3% for residential and ↑6.0% for commercial) follows growth in reassessments for Group II of 16.2 percent (↑14.6% for residential and ↑23.2% for commercial properties). The increase follows growth in reassessments for Group I of 43.4 percent (↑44.2% for residential and ↑36.4% for commercial).

There is a ten percent annual assessment growth limitation for residential property that is owner-occupied. As a result of this "homestead tax credit," these taxable reassessments in Montgomery County may not grow more than ten percent in any one year. Due to strong reassessment growth in the late 1980s and early 1990s, this assessment limitation credit topped the \$2.5 billion mark in FY92 (using the current 100 percent full cash value method). As growth in home prices decelerated in subsequent years, reassessments either declined or grew less rapidly. The homestead tax credit reflected this trend, with the aggregate credit dropping steadily to \$48 million in FY01. However, as the real estate market rebounded in the County starting in the late 1990s, home prices rose at a faster clip causing a sharp increase in reassessments. This is reflected in an increase in the credit to \$1.33 billion in FY04, \$3.80 billion in FY05, \$8.47 billion in FY06, \$14.95 billion in FY07, \$21.46 billion in FY08, \$23.75 billion in FY09, which is an all time record, and declining to \$15.2 billion in FY10. The outlook for the remainder of the six-year forecast period is for the homestead tax credit to continue its sharp decline through FY12.

Decreases in the personal property base between FY04 and FY06 reflected the residual effects of weak labor market conditions that occurred between calendar years 2001 and 2003 and resulted in a lower number of new businesses and associated investments. This was exacerbated by tax law changes, including partial exemption of electricity generating equipment (energy deregulation), other exemptions (e.g., manufacturing, Research and Development, and certain computer software), and new depreciation rules (e.g., for computer equipment). Personal property includes public utility equipment, business furniture and equipment, and computers. Finance estimates that the corporate personal property base is projected to increase 0.7 percent in FY10. The public utility portion, which accounted for 38.4 percent of the personal property base in FY08, is projected to increase 0.3 percent in FY10.

---

The real property base of \$169.8 billion in FY10 is estimated to grow \$11.2 billion compared to a revised FY09 estimate, the result of \$1.7 billion addition to the base from new construction, and \$0.9 billion in reassessments, offset by an \$8.5 billion decline in the homestead tax credit. The level of new reassessments in FY10 is attributed to the dramatic decline in Group III reassessment rates. Construction is projected to increase modestly in FY10, and is expected to gradually decrease over the next five fiscal years reaching \$1.5 billion by FY15. Similarly, reassessments remain the largest contributor to the taxable base during this six-year forecast period. Reflecting a one-year phase-in of the 16.3 percent decline in residential reassessments for Group III and a decline of 7.6 percent for Group I in FY11 (levy year 2010) and another 1.9 percent for Group II in FY12 (levy year 2011), growth in the total assessable base is projected to steadily moderate to 7.3 percent by FY11 and 3.3 percent by FY12.

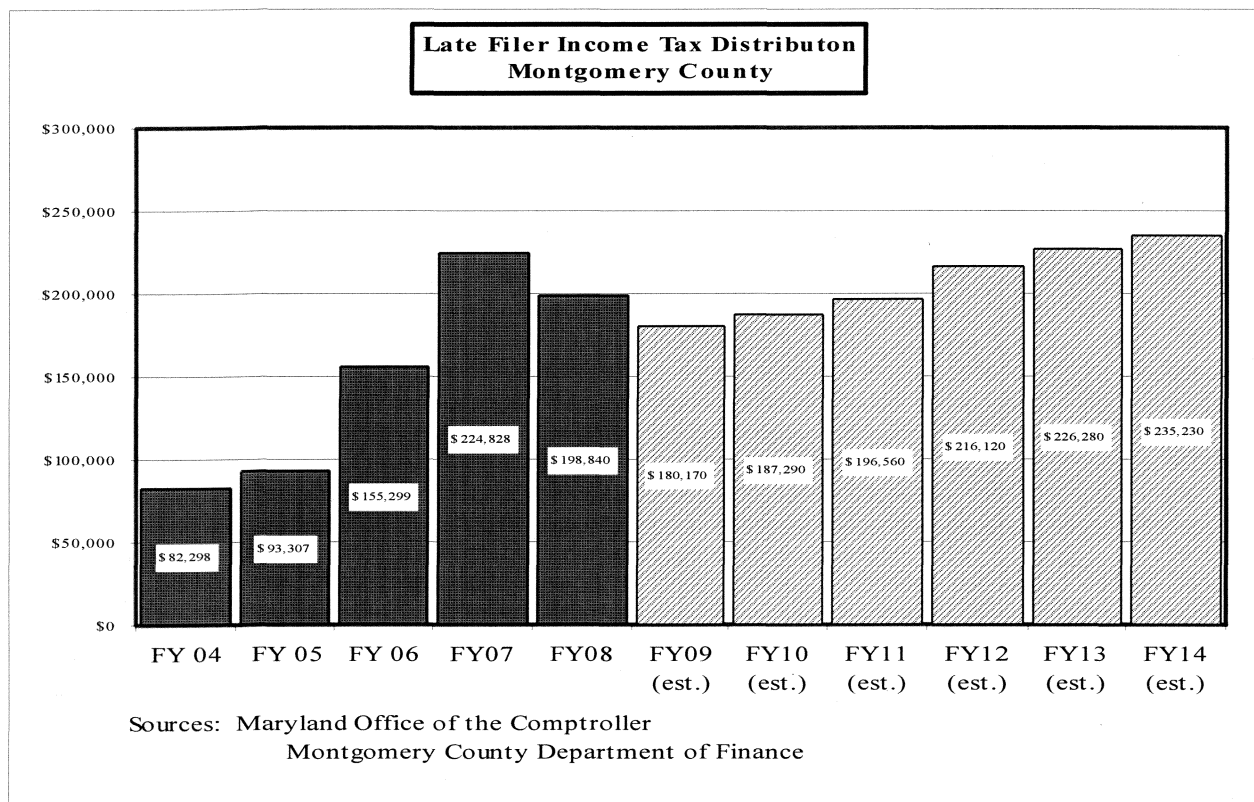
## **Income Tax**

**Estimated FY10 income tax revenues of \$1,214.8 million are 5.2 percent below the revised FY09 estimate.** Growth slowed during the early part of the decade reflecting moderation in the trend attributed to very weak growth in County employment – an average annual growth rate of 0.5 percent between calendar years 2001 and 2003. For example, adjusted for the rate cut, the percent change in withholdings and estimated payments declined steadily from a peak of 10.5 percent in tax year 2000 to an annual average growth rate of 0.9 percent between tax years 2001 and 2003. However, since 2003 withholdings and estimated payments rebounded with an increase of 10.5 percent in 2004, 5.0 percent in 2005, 13.4 percent in 2006, 13.0 percent in 2007, but decelerated to 1.5 percent in 2008.

Since, during any one fiscal year, the County receives income tax distributions pertaining to at least three different tax years, it is important to analyze the data on a tax year basis. During the 1990s, average annual tax liability grew considerably slower in the first half (7.5 percent) of the decade compared to the second half (10.4 percent). During the second half of the 1990s, quarterly income tax distributions grew rapidly, with ten percent growth rates in the years 1997 through 1999. However, such growth decelerated rapidly to only 6.8 percent in 2000, 1.1 percent in 2001, 1.4 percent in 2002, and 0.3 percent in 2003. Following a subsequent economic and stock market rebound and the County Council raising the local tax to the maximum rate of 3.2 percent, effective tax year 2004, revenues from withholdings and estimated payments increased 19.9 percent, 5.0 percent in 2005, 13.4 percent in 2006, and 13.0 percent in 2007.

In addition to the quarterly distributions that represent withholdings and estimated payments, receipts from late filers who had underestimated their tax liability jumped to unprecedented levels during the late 1990s and 2000. For example, while a total of only \$37.0 million was received for tax year 1990, that amount gradually increased and peaked at \$192.4 million in 2000, but fell sharply in the two subsequent years to \$98.0 million by 2002. Since that time, revenues from later filers have rebounded dramatically reaching \$127.0 million in 2003, \$183.0 million in 2004, \$227.9 million in 2005, declined to \$198.9 million in 2006 and declined to \$179.2 million in 2007. As taxpayers underestimate their tax liability from, generally, non-employment related earnings, additional payments are made when tax returns are filed. Taxpayers with more complicated tax returns, reflecting significant non-employment related earnings such as stock options and capital gains (from either the stock market or real estate), increasingly file for an extension. However, recent federal tax law now allows a taxpayer to get a six-month extension rather than a four-month extension with a request for an extra two months. Since taxpayers now file for one extension (through October 15th), income tax receipts from late filers are distributed to the County primarily in November and to a lesser degree in January. These late filer distributions reflect significant shifts in one-time tax liability and, thus, represent the most volatile component of the income tax. Even though, in aggregate, this tax liability may continue to shift over a longer period of time, the shift remains one-time in the sense that tax liability changes as a result of the one-time exercise of a stock option or sale of stock or real estate at a price that is different from the original issuance or purchase. Once that action has been taken, gains (or losses) are recognized, with no addition to future tax liability. By contrast, employment growth is an addition to the base that increases tax liability through wage growth in future years and is, thus, a more predictable indicator of future revenue growth.





In the 2007 Special Session, the Maryland General Assembly enacted the Tax Reform Act of 2007 which made major changes to the income tax law effective January 1, 2008. Major changes to the income tax established new tax rates and rate brackets, and new exemption amounts. The new tax rates range from 2.0 percent for the lowest taxable income brackets (<\$1,001) to 5.5 percent for the highest taxable income (>\$500,000). The second major change established new exemption amounts ranging from \$2,400 for incomes at or below \$175,000 for taxpayers filing joint, surviving spouse, and head of household returns, (at or below \$125,000 for other taxpayers) to \$600 for incomes in excess of \$250,000 for taxpayers filing joint, surviving spouse. Because of the changes to the exemptions, the State estimated that the County may lose income tax revenues from the County's income tax. Finance assumed that the new law will have little effect on County income tax revenues in FY08 but adjusted its estimate starting in FY09 based on data provided by the State.

### **Transfer and Recordation Taxes**

Estimated FY10 revenues of \$123.4 million, which excludes the school CIP portion, condominium conversions, and partial revenues from recordation taxes from transactions above \$500,000, are 9.6 percent above the revised FY09 estimate. This reflects an FY10 estimate of \$65.0 million in the transfer tax and \$58.4 million in the recordation tax, of which \$12.6 million is attributed to the 2008 enactment of legislation by the Maryland General Assembly regarding the taxation of controlling interest. Transfer and recordation tax revenues have fluctuated greatly over time and primarily reflect shifting trends in the real estate market. In FY08, 85.7 percent of transfer tax revenue came from the residential sector compared to 87.7 percent in FY04, 85.5 percent in FY05, 83.6 percent in FY06, and 87.1 percent in FY07. The transfer tax rate is generally one percent of the value of the property transferred to a new owner. This applies to both improved (i.e., building) and unimproved (i.e., land) residential and commercial properties. The recordation tax is levied when changes occur in deeds, mortgages, leases, and other contracts pertaining to the title of either real or personal property. Through FY02 the recordation tax was generally \$4.40 per \$1,000 of the value of the contract (0.44%). Beginning in FY03, the recordation tax rate was raised to \$6.90 per \$1,000 of the value of the contract with the first \$50,000 of the consideration exempted from the tax for owner-occupied residential properties (0.69%). The Council earmarked the revenues attributed to the rate increase for school capital programs and College information technology projects. Generally, both transfer and recordation taxes are levied when properties are sold. In some cases, only one of the two taxes is levied. One example is refinancing of a mortgage, in which case there may be an increase in the mortgage amount and, hence, recordation tax, but since there is no transfer of property, there is no transfer tax. Beginning March 1, 2008, the Council also levied an additional recordation tax (premium) of 0.31 percent on transactions above \$500,000.

---

Residential transfer tax revenues are affected by the trends in real estate sales for existing and new homes. Real estate sales, in turn, are highly correlated with specific economic indicators such as growth in employment and wages and salaries, formation of households, mortgage lending conditions, and mortgage interest rates. The same holds true for the commercial sector, which is equally affected by business activity and investment, office vacancy rates, and financing costs. The volatility in revenues from the transfer and recordation is best illustrated in the trend since FY99. The growth rate in the number of residential transfers slowed to 7.5 percent in FY00 when the number of residential transfers peaked at nearly 22,000, decreased 4.5 percent in FY01 (21,005), increased 12.5 percent in FY02 (23,633), decreased 3.6 percent in FY03 (22,771), increased 9.3 percent in FY04 (24,897), increased modestly to 3.8 percent in FY05 (25,852), but declined 7.9 percent in FY06 (23,803), declined 22.7 percent in FY07 (18,389), and declined 28.9 percent in FY08 (13,066). While the number of residential transfers exhibited significant volatility since FY99, the acceleration in home prices during FY04, FY05, and FY06 had a significant effect on revenues and partially offset the volatility in the number of transfers especially in FY06. Due to the strong demand for new and existing homes, property values increased such that total transfer taxes from the residential sector increased 29.6 percent in FY04, 20.3 percent in FY05, and 6.5 percent in FY06.

However, conditions in the real estate market for Montgomery County began to weaken in FY06 and deteriorated further in FY07 and continued into FY08. Home sales declined 15.7 percent in FY06, 21.4 percent in FY07, and 31.3 percent in FY08. Finance assumes that the number of residential transfers will decline 12.8 percent in FY09 and increase a modest 3.6 percent in FY10. Average sales prices decelerated in FY07 ( $\uparrow 2.0\%$ ) and FY08 ( $\uparrow 0.4\%$ ). Finance estimates that average prices will decline 11.6 percent in FY09. Because of the projected decline in the number of transfers and a decline in average prices, revenues from the residential portion of the transfer tax are expected to decrease 25.0 percent in FY09 but increase 7.8 percent in FY10.

At the same time that revenues from the residential portion of the transfer tax experienced significant growth since FY99, revenues from non-residential properties experienced a more medium-term cyclical pattern that began in FY99. Beginning in FY99, revenues from non-residential property (excluding farms and rezoning) declined for three consecutive years: -36.2 percent in FY99, -2.6 percent in FY00, and -17.3 percent in FY01. However, based on a healthy commercial boom since FY01, non-residential transfer taxes recovered in FY02 ( $\uparrow 3.0\%$ ), FY03 ( $\uparrow 18.6\%$ ), FY04 ( $\uparrow 33.9\%$ ), FY05 ( $\uparrow 48.5\%$ ), and FY06 ( $\uparrow 13.4\%$ ). By contrast, in FY07 revenues from non-residential properties declined 49.2 percent, increased 1.8 percent in FY08 and projected to decrease another 35.2 percent in FY09 before rebounding in FY10.

Recordation tax revenues (excluding the school CIP portion) generally track the trend in transfer tax revenues. More recently, the relationship increased to 71.0 percent of transfer tax in FY04, declined to 65.6 percent in FY05, but increased to 66.2 percent in FY06, 68.0 percent in FY07, and 68.0 percent in FY08. Revenues from the recordation tax increased 35.7 percent in FY02, 17.7 percent in FY03, 27.8 percent in FY04, 13.9 percent in FY05, and 9.8 percent in FY06, before declining 24.5 percent in FY07 and 24.8 percent in FY08. The revised estimate for FY09 reflects a decrease of 4.4 percent reaching \$52.3 million, although conditions are expected to improve in the next year resulting in an increase of 11.7 percent in FY10 to \$58.4 million. The combined transfer and recordation taxes are projected to reach \$123.4 million in FY10.

## **Energy Tax**

**Estimated FY10 revenues of \$130.4 million are 1.5 percent above the revised FY09 estimate.** The fuel-energy tax is imposed on persons transmitting, distributing, manufacturing, producing, or supplying electricity, gas, steam, coal, fuel oil, or liquefied petroleum gas. Different rates apply to residential and nonresidential consumption and to the various types of energy. Effective FY04, the previous rate schedule was increased threefold by the County Council on May 14, 2003. The rate schedule was changed again on May 20, 2004, with rates increasing 52.15 percent for FY05 and again with enactment of Resolution Number 16-553 on May 14, 2008. The resolution levied a carbon surtax by increasing the electricity, oil, and steam rates by 10.0 percent, increasing the natural gas rate by 5.0 percent, and increasing the coal rate by 20.0 percent. Since the rates per unit of energy consumed are fixed, collections change only with shifts in energy consumption and not with changes in the price of the energy product. Based on partial fiscal year data, Finance assumes that residential consumption as a percentage of total energy consumption will remain at 46.0 percent. Due to a different rate schedule, the share of receipts from residential users is approximately 27.2 percent of total collections, with the larger share received from the non-residential sector. Measured for all energy types, the two largest sources of revenues in FY08 were electricity (79.0%) and natural gas (19.3%). Since actual collections vary with weather conditions, a harsh winter weather increases usage of electricity, natural gas, and heating oil, while milder summer weather reduces electricity usage for climate control systems. The impact of weather patterns is partly offset by an expansion of the user base with more businesses and households. With a continuation of the "mild weather" pattern for the next fiscal year, the budget estimate for FY10 is projected to increase 1.5 percent.

---

## Telephone Tax

**Estimated FY10 revenues of \$32.8 million are 4.0 percent above the revised FY09 estimate.** The telephone tax is levied as a fixed amount per landline and per wireless line. The tax on a traditional landline is \$2.00 per month, while multiple business lines (Centrex) are taxed at \$0.20 per month. The tax rate on wireless lines is \$2.00 per month. With business expansion combined with a surge in new home sales in the County in FY00 and FY01, and an increased demand for second phone lines for computer access to the internet, collections from the telephone tax grew 12.0 percent in FY00 and 4.1 percent in FY01. With the slowdown in the local economy during FY02 and FY03 and alternative computer internet access, collections declined 5.8 percent and 8.6 percent, respectively. Assuming modest growth in businesses and households, revenues are expected to increase 4.0 percent in FY10 primarily due to an increase in cellular telephones. Reflecting, in part, modest growth in new household and business formations, the outlook for FY10 through FY15 is for revenues from wireless communication to increase at a slower rate attributed to a deceleration in the rate of household formations and a growing saturation of the market for wireless devices while the number of landlines are expected to experience no growth in FY10.

## Hotel/Motel Tax

**Estimated FY10 revenues of \$20.0 million are 6.9 percent above the revised FY09 estimate.** The recommended budget includes a proposal to require certain brokers to collect and remit to the County a room rental tax on certain transients. The hotel/motel tax is levied as a percentage of the hotel bill. The current tax rate of 7 percent in FY09 is also assumed for FY10. In FY97, the rate was increased from 5 percent to 7 percent with the increase earmarked for funding the Montgomery County Conference Center located in North Bethesda. Collections grow with the costs of hotel rooms and the combined effect of room supply and hotel occupancy rate in the County. Occupancy rates in the County are generally the highest in the spring (April and May) and autumn (September and October) as tourists and schools visit the nation's capital for such events as the Cherry Blossom Festival and school trips, while organizations often schedule conferences during such periods. During peak periods, many visitors to Washington, D.C. use hotels in the County, especially those in the lower county. Reflecting improved economic conditions during the mid and late 1990s and the presidential primaries and presidential inauguration during 2000 and early 2001, respectively, spurred both business travel and tourism, hotel occupancy rates grew from 67.1 percent in FY96 to a record high 72.1 percent in FY01 declining to 64.8 percent in FY08. The second component – average room rate – grew at an average annual rate of 4.4 percent between FY95 and FY08 to a record \$134.70. The third component that makes up revenues – room supply – grew at an average annual rate of 1.5 percent from FY95 to FY08. As a result, total hotel revenues more than doubled between FY95 and FY08 to over \$17.8 million.

Because of the economic slowdown in the County and the national recession that began in December 2007, the average occupancy rate is expected to decrease slightly from a revised 64.8 percent in FY08 to 64.7 percent in FY09, notwithstanding the brief jump in occupancy during the Presidential inauguration, and 64.6 percent in FY10. Room rates are expected to climb to \$137.14 in FY09 and \$143.00 in FY10 as a countywide average, resulting in 5.7 percent growth in the hotel/motel tax in FY10 which follows a revised estimate of 5.3 percent growth in FY09. Long-term estimates are tied to projected room occupancy and rate increases, partially reflecting the forecast of inflation and population growth that result in annual projected revenues through FY15 in the \$21.3 million and \$26.2 million range. The Montgomery County Conference and Visitors Bureau is funded, in part, through a 3.5 percent share of the hotel/motel tax.

## Admissions Tax

**Estimated FY10 revenues of \$2.1 million are 3.9 percent above the revised FY09 estimate.** Admissions and amusement taxes are State-administered local taxes on the gross receipts of various categories of amusement, recreation, and sports activities. Taxpayers are required to file a return and pay the tax monthly while the County receives quarterly distributions of the receipts from the State. Montgomery County levies a seven percent tax, except for categories subject to State sales and use tax, where the County rate would be lower. Such categories include rentals of athletic equipment, boats, golf carts, skates, skis, horses; and sales related to entertainment. Gross receipts are exempt from the County tax when a Municipal admissions and amusement tax is in effect. For FY08, coin and non-coin-operated amusement devices accounted for 26.0 percent of total collections, while other major categories include golf green fees, driving ranges and golf cart rentals (26.5%), and motion picture theaters (29.4%). Revenues for the period FY11 through FY15 are expected to average \$2.1 million.

## NON-TAX REVENUES

Non-tax revenues throughout all tax supported funds (excluding Enterprise Funds, such as Permitting Services, Parking Districts, Solid Waste Disposal, and Solid Waste Collection Funds) are estimated at \$833.0 million in FY10. This is a \$65.3 million increase, or 8.5 percent, from the revised FY09 estimate, reflecting increases in intergovernmental revenues (↑8.5%) and fees, licenses, fines, etc. (↑13.7%). Non-tax revenues include: intergovernmental aid; investment income; licenses and permits; user fees, fines, and forfeitures; and miscellaneous revenues.

---

## **General Intergovernmental Revenues**

General Intergovernmental Revenues are received from the State or Federal governments as general aid for certain purposes, not tied, like grants, to particular expenditures. The majority of this money comes from the State based on particular formulas set in law. Total aid is specified in the Governor's annual budget. Since the final results are not known until the General Assembly session is completed and the State budget adopted, estimates in the March 15 County Executive Recommended Public Services Program are, generally, based on the Governor's budget estimates for FY10, unless those estimates assume a change in existing law. If additional information on the State budget is available to the County Executive, this information will be incorporated into the budgeted projection of State aid. For future years, it is difficult to know confidently how State aid policy may change. The projection does not assume that State aid formulas will necessarily remain in place. It is assumed that State aid will increase with either the projected rate of inflation, by an amount based on the projected increase in County population, or a combination of those two factors. The Recommended Budget for FY10 assumes a \$48.7 million, or 8.5 percent, increase in Intergovernmental Revenues from the revised FY09 estimate, of which 75.4 percent is allocated to the Montgomery County Public Schools, 5.4 percent to Montgomery Community College, 5.3 percent to Highway User Revenue, 4.5 percent to direct reimbursements, and 3.7 percent to Mass Transit. Total Intergovernmental Aid is estimated to total \$624.0 million in FY10 or 74.9 percent of all non-tax revenues.

## **Licenses and Permits**

Licenses and permits include General Fund business licenses (primarily public health, traders, and liquor licenses) and non-business licenses (primarily marriage licenses and Clerk of the Court business licenses). Licenses and permits in the Permitting Services Enterprise Fund, which include building, electrical, and sediment control permits, are Enterprise Funds and thus not included in tax supported projections. The Recommended Budget for FY10 assumes a 2.4 percent decrease over the revised projections for FY09, resulting in \$11.9 million in available resources in FY10.

## **Charges for Services (User Fees)**

Excluding intergovernmental revenues to Montgomery County public schools, Montgomery Community College, and college tuition, charges for services, or user fees, is the largest non-tax revenue source, especially when Enterprise Funds such as Solid Waste Collection, Solid Waste Disposal, Liquor Fund, M-NCPPC user fees, MCPS food service sales, and parking revenues are considered. Tax supported fee revenues come primarily from fees imposed on the recipients of certain County services including mass transit, human services, and recreation services and are included in the tax supported funds. Without rate increases, these revenues tend to show little growth although there is some variance because of weather, population changes, the economy, and changes in commuting patterns. However, it is the policy of the County to increase rates or fees to keep up with inflation. It is not always possible to achieve this goal for each fee, either because of market competition or because prices normally rise in rounded steps. The long-term estimates assume that rates will rise. The Recommended Budget for FY10 assumes 28.3 percent growth over the revised projections for FY09, resulting in \$65.9 million in available resources in FY10.

## **Fines and Forfeitures**

Revenues from fines and forfeitures relate primarily to photo red light citations, speed camera citations, and library and parking fines (excluding the County's four Parking Districts). The Recommended Budget for FY10 assumes that fines and forfeitures will increase 18.7 percent over the revised estimates for FY09, resulting in \$38.0 million in available resources in FY10.

## **College Tuition**

Although College tuition is no longer included in the County Council Spending Affordability Guideline Limits (SAG), it remains in the tax supported College Current Fund. Calculation of the aggregate operating budget is under the SAG Limits. Tuition revenue depends on the number of registered students and the tuition rate. The Recommended Budget for FY10 assumes an increase of 3.4 percent over the revised projections for FY09 resulting in \$71.1 million in available resources in FY10.

## **Investment Income**

Investment income includes the County's pooled investment and non-pooled investment and interest income of other County agencies and funds. The County operates an investment pool directed by an investment manager who invests all County funds using an approved, prudent investment policy. The pool includes funds from tax supported funds as well as from Enterprise Funds, municipal taxing districts, and other governmental agencies. Two major factors determine pooled investment income: (1) the average daily investment balance which is affected by the level of revenues and expenditures, fund balances, and the

---

timing of bond and commercial paper issues; and (2) the average yield percentage which reflects short-term interest rates and may vary considerably during the year.

The revised FY09 estimate of pooled investment income of \$11.1 million assumes a 1.30 percent yield on equity and an average daily balance of \$850.1 million. The FY10 projected estimate of \$9.7 million assumes a decline to a 1.10 percent yield but a slightly higher average daily balance of \$878.6 million. Reflecting robust growth in revenues in the second half of the 1990s, the amount of available funds for investments, measured by the daily cash balance, doubled between FY93 (\$437.2 million) and FY00 (\$890.5 million). As a result of weak economic and revenue conditions starting in calendar year 2001, the cash balance declined from \$890.5 million to \$566.0 million between FY00 and FY04. Because of the economic and revenue outlook, the cash balance rebounded to \$710.2 million in FY05, \$883.6 million in FY06, \$930.5 million in FY07, and \$971.4 million in FY08. Using current revenue projections, the daily cash balance is expected to decline from \$971.4 million to \$850.1 million in FY09 but rebound over the following six fiscal years to \$1,036.3 million by FY15. Yields have fluctuated significantly over time. When the Fed tightened monetary policy in calendar years 1999 and 2000, yields jumped to 6.62 percent during the fourth quarter of calendar year 2000 – a ten-year high. On a fiscal year basis, yield rates increased to 6.16 percent in FY01. However, as the economy weakened significantly in calendar year 2001, the Federal Open Market Committee (FOMC) of the Federal Reserve initiated an aggressive monetary policy and cut the federal fund interest rate 13 times, reducing the rate from 6.50 percent at the onset of calendar year 2001 to just 1.00 percent by June 2003 – the lowest level since calendar year 1958. Not surprisingly, investment income yields followed interest rates on their downward trend, with the yield falling from 6.57 percent in December 2000 to 1.49 percent in December 2002. This 84 percent drop (or 554 basis points) in yield is the main reason for the 87 percent drop in investment income between FY00 and FY04. However, beginning in June 2004, the FOMC began to raise interest rates at a measured pace such that between June 2004 and June 2006, the target rate on federal funds increased from 1.00 percent to 5.25 percent. Since August 2007, the FOMC has reduced the target rate for federal funds from 5.25 percent to a range of 0.00-0.25 percent in December 2008. The revisions to the FY09 estimate for pooled investments was revised downward to incorporate the 500-525 basis points (bps) drop in the federal fund rates since August 2007 while the federal funds futures market expects no rate adjustments until the latter part of calendar year 2009.

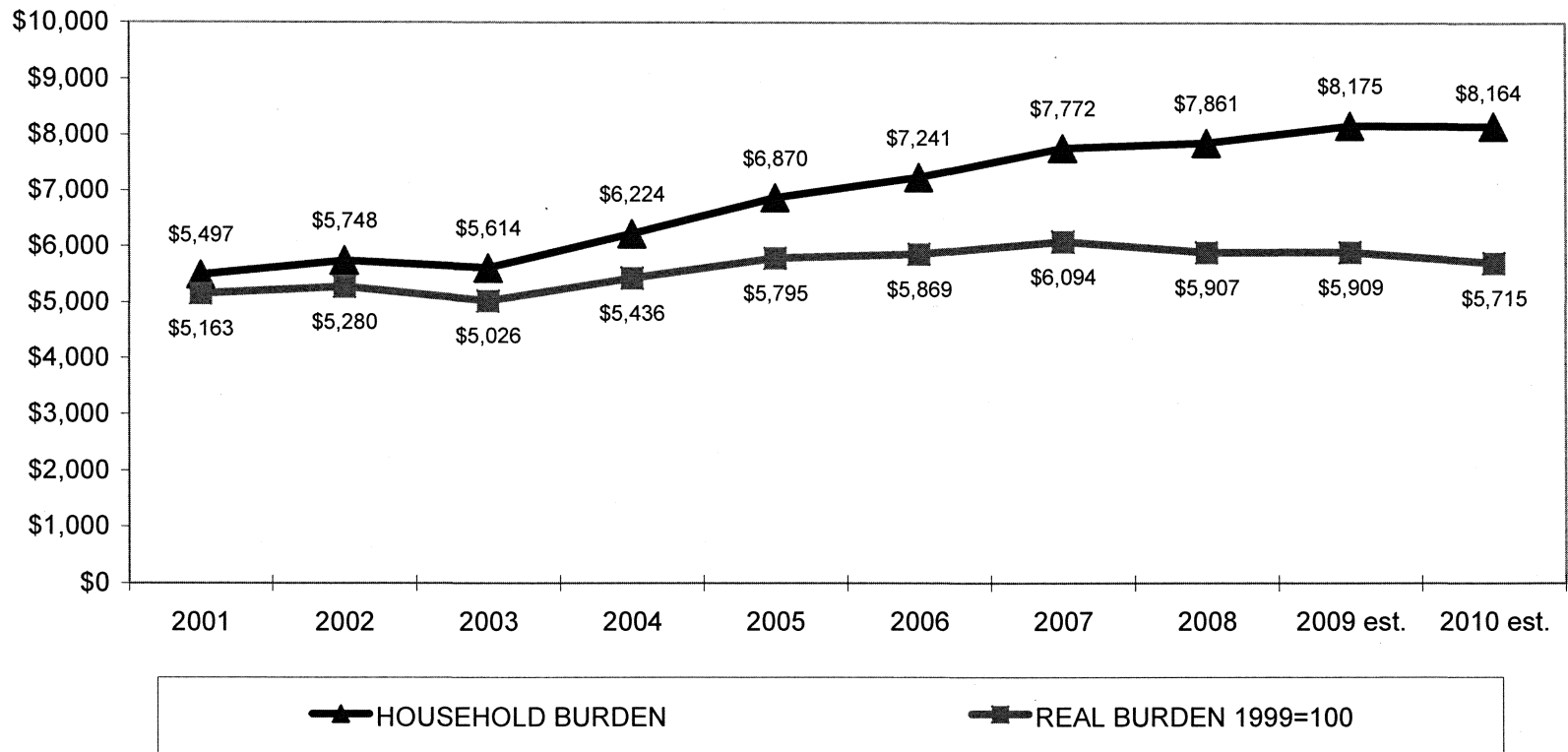
### **Other Miscellaneous**

The County receives miscellaneous income from a variety of sources, the largest of which are rental income for the use of County property, operating revenue from the Conference Center, prior year encumbrance liquidations, abandoned vehicle auctions, and other revenues from current fund. These five categories make up 81.9 percent of the total \$16.1 million projected for FY10. The projection for subsequent fiscal years assumes growth at the rate of inflation.

TRENDS AND PROJECTIONS											
DEMOGRAPHIC AND PLANNING INDICATORS	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
<b>POPULATION</b>	<b>929,100</b>	<b>935,275</b>	<b>941,491</b>	<b>949,591</b>	<b>957,760</b>	<b>966,000</b>	<b>977,522</b>	<b>989,181</b>	<b>1,000,979</b>	<b>1,012,919</b>	<b>1,025,000</b>
Annual Increase	100	6,175	6,216	8,100	8,169	8,240	11,522	11,659	11,798	11,940	12,081
Population Growth Since 1999	8.8%	9.5%	10.2%	11.2%	12.1%	13.1%	14.5%	15.8%	17.2%	18.6%	20.0%
County Resident Births (Prior Calendar Year)	13,546	13,507	13,806	13,843	14,010	14,180	14,340	14,490	14,630	14,760	14,880
<b>HOUSEHOLDS</b>	<b>347,000</b>	<b>349,949</b>	<b>352,924</b>	<b>355,924</b>	<b>358,949</b>	<b>362,000</b>	<b>366,678</b>	<b>371,416</b>	<b>376,215</b>	<b>381,076</b>	<b>386,000</b>
Household Annual Growth (%)	0.2%	0.8%	0.9%	0.9%	0.8%	0.8%	1.3%	1.3%	1.3%	1.3%	1.3%
Household Growth Since 1999	8.9%	9.8%	10.8%	11.7%	12.7%	13.6%	15.1%	16.6%	18.1%	19.6%	21.2%
Household Growth Since 1992	19.2%	20.2%	21.2%	22.2%	23.3%	24.3%	25.9%	27.5%	29.2%	30.9%	32.6%
Household Size	2.68	2.67	2.67	2.67	2.67	2.67	2.67	2.66	2.66	2.66	2.66
<b>RESIDENT EMPLOYMENT (Jan = Calendar Year)</b>	<b>488,434</b>	<b>498,078</b>	<b>498,279</b>	<b>500,200</b>	<b>503,900</b>	<b>507,300</b>	<b>514,500</b>	<b>518,600</b>	<b>522,800</b>	<b>527,000</b>	<b>531,200</b>
Resident Employment Annual Growth (%)	1.4%	2.0%	0.0%	0.4%	0.7%	0.7%	1.4%	0.8%	0.8%	0.8%	0.8%
Resident Employment Growth Since 1999	4.4%	6.4%	6.5%	6.9%	7.7%	8.4%	9.9%	10.8%	11.7%	12.6%	13.5%
Resident Employment Per Household	1.41	1.42	1.41	1.41	1.40	1.40	1.40	1.40	1.39	1.38	1.38
Jobs in County	500,000	508,650	504,680	503,822	505,359	510,000	516,120	522,830	530,670	538,740	547,000
<b>PERSONAL INCOME (\$ Millions)</b>	<b>\$55,600</b>	<b>\$59,000</b>	<b>\$62,500</b>	<b>\$65,700</b>	<b>\$68,700</b>	<b>\$72,200</b>	<b>\$76,200</b>	<b>\$79,900</b>	<b>\$84,000</b>	<b>\$88,300</b>	<b>\$92,900</b>
Per Capita Personal Income	\$60,389	\$63,753	\$67,146	\$70,035	\$72,668	\$75,777	\$79,029	\$81,890	\$85,081	\$88,380	\$91,889
Annual Growth (%)	7.4%	5.6%	5.3%	4.3%	3.8%	4.3%	4.3%	3.6%	3.9%	3.9%	4.0%
<b>CONSUMER PRICE INDEX (CPI) - Fiscal Year</b>	<b>3.55%</b>	<b>4.07%</b>	<b>3.37%</b>	<b>4.35%</b>	<b>4.50%</b>	<b>3.60%</b>	<b>2.80%</b>	<b>2.50%</b>	<b>2.50%</b>	<b>2.50%</b>	<b>2.50%</b>
Inflation Growth (Fiscal Year) Since Nov. 1999 (%)	102.9%	132.6%	92.6%	148.6%	157.1%	105.7%	60.0%	42.9%	42.9%	42.9%	42.9%
<b>CONSUMER PRICE INDEX (CPI) - Calendar Year (%)</b>	<b>4.03%</b>	<b>3.63%</b>	<b>3.48%</b>	<b>4.90%</b>	<b>4.10%</b>	<b>3.10%</b>	<b>2.50%</b>	<b>2.50%</b>	<b>2.50%</b>	<b>2.50%</b>	<b>2.50%</b>
<b>ASSESSABLE TAX BASE (\$ Millions)</b>	<b>\$102,184</b>	<b>\$114,361</b>	<b>\$129,660</b>	<b>\$146,277</b>	<b>\$162,519</b>	<b>\$176,973</b>	<b>\$188,021</b>	<b>\$195,099</b>	<b>\$198,508</b>	<b>\$203,681</b>	<b>\$211,827</b>
Annual Growth (%)	9.6%	11.9%	13.4%	12.8%	11.1%	8.9%	6.2%	3.8%	1.7%	2.6%	4.0%
Growth of Base Since 1992 (%)	70.8%	91.2%	116.7%	144.5%	171.7%	195.8%	214.3%	226.1%	231.8%	240.5%	254.1%
Growth of Base Since 1999 (%)	39.0%	55.5%	76.4%	99.0%	121.0%	140.7%	155.7%	165.4%	170.0%	177.0%	188.1%
<b>INVESTMENT INCOME YIELD (%)</b>	<b>2.19%</b>	<b>4.12%</b>	<b>5.21%</b>	<b>4.41%</b>	<b>1.50%</b>	<b>1.50%</b>	<b>2.40%</b>	<b>3.20%</b>	<b>4.00%</b>	<b>4.20%</b>	<b>4.35%</b>
<b>MCPS ENROLLMENT (Sept = Calendar Year)</b>	<b>139,337</b>	<b>139,387</b>	<b>137,798</b>	<b>137,745</b>	<b>139,276</b>	<b>140,500</b>	<b>140,782</b>	<b>141,536</b>	<b>142,422</b>	<b>143,591</b>	<b>144,932</b>
Annual Growth (%)	0.1%	0.0%	-1.1%	0.0%	1.1%	0.9%	0.2%	0.5%	0.6%	0.8%	0.9%
Annual Increase (Decrease)	134	50	(1,589)	(53)	1,531	1,224	282	754	886	1,169	1,341
<b>MONTGOMERY COLLEGE ENROLLMENTS (a)</b>	<b>22,254</b>	<b>22,263</b>	<b>22,893</b>	<b>23,866</b>	<b>24,452</b>	<b>24,830</b>	<b>25,130</b>	<b>25,200</b>	<b>25,250</b>	<b>25,230</b>	<b>25,230</b>
Annual Growth (%)	2.69%	0.04%	2.83%	4.25%	2.46%	1.55%	1.21%	0.28%	0.20%	-0.08%	0.00%
<b>Full Time Equivalents (Sept = Calendar Year) (a)</b>	<b>17,098</b>	<b>18,217</b>	<b>18,977</b>	<b>19,721</b>	<b>20,360</b>	<b>20,843</b>	<b>21,000</b>	<b>21,177</b>	<b>21,330</b>	<b>21,404</b>	<b>21,404</b>
Annual Growth in FTE's (%)	8.53%	6.54%	4.17%	3.92%	3.24%	2.37%	0.75%	0.84%	0.72%	0.35%	0.00%

(a) Projections related to Montgomery College Enrollments and Full Time Equivalents are provided by Montgomery College and only include projections thru FY14. Since no projections are provided for FY15, the projections for FY14 were used for FY15.

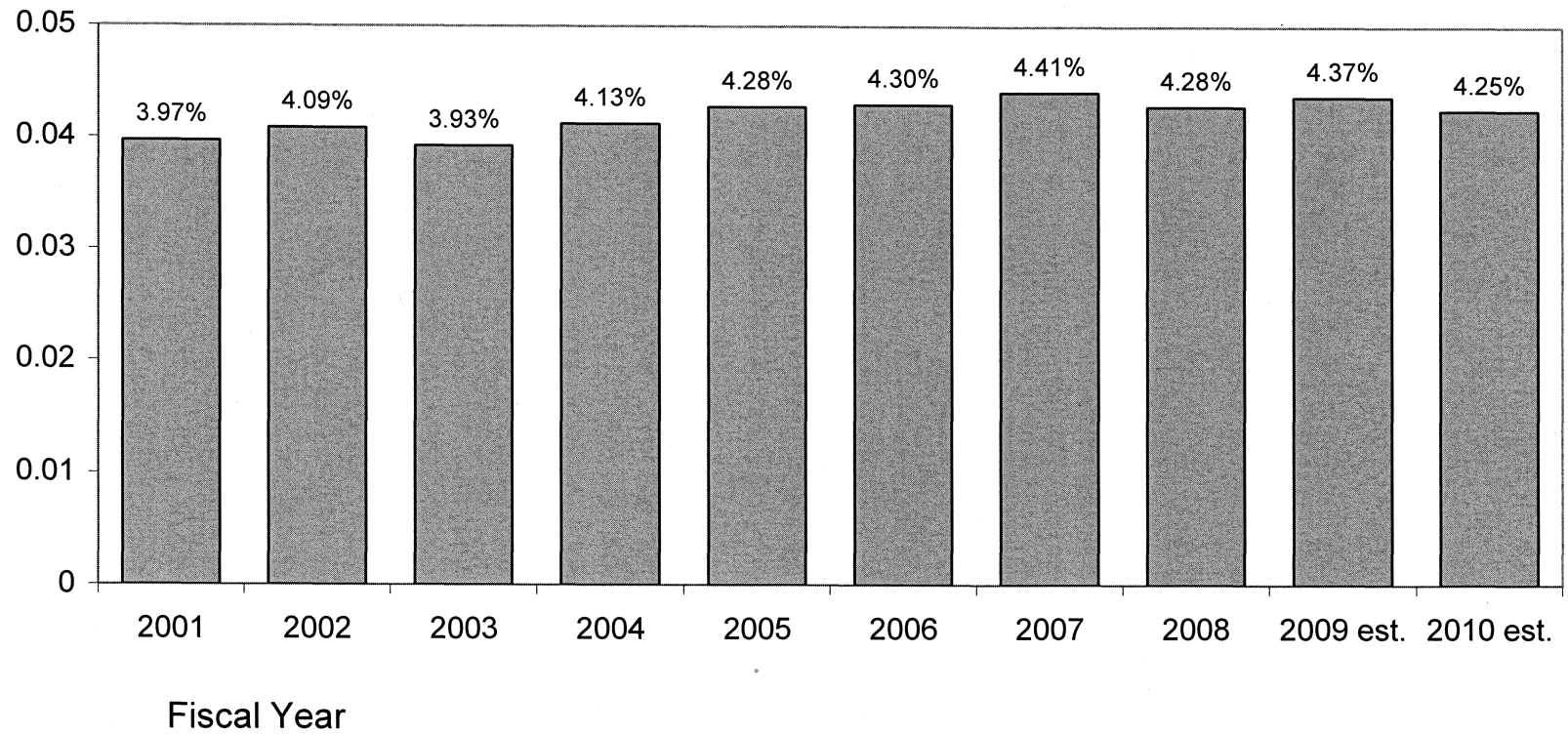
### AVERAGE HOUSEHOLD TAX BURDEN MONTGOMERY COUNTY BY FISCAL YEAR



Prepared by Montgomery County Department of Finance



### COUNTY TAXES AS A SHARE OF PERSONAL INCOME MONTGOMERY COUNTY



Prepared by Montgomery County Department of Finance

FY10 FEE AND FINE CHANGES*			
DEPARTMENT/FEE AND FINE	FY10 REVENUE CHANGE	METHOD OF CHANGE	NOTE
<b>MONTGOMERY COLLEGE</b>			
Tuition rate increase	2,088,000	Board of Trustees action	Increase per semester hour rate from \$99 to \$102 for County residents, \$203 to \$209 for State residents, and \$275 to \$284 for non-residents.
<b>ENVIRONMENTAL PROTECTION</b>			
Water Quality Protection Charge	2,340,300	Maryland Code, Title 4; Montgomery County Code 19-35; Montgomery County Executive Regulation 6-02; Amend County Code New County Council Resolution	Increase from \$35.50 per equivalent unit (ERU) to \$45.00 per (ERU) to cover increased expenditures in the Water Quality Protection Fund.
<b>FIRE RESCUE SERVICE</b>			
Ambulance/Emergency Transport Fee	14,554,050	Executive Regulation	To provide needed resources for improvements to staffing, apparatus, recruitment and retention, and volunteer enhancements.
<b>HOUSING AND COMMUNITY AFFAIRS</b>			
Registration for Common Ownership Communities	72,350	Executive Regulation	Increase from \$2.25 to \$2.75 per unit.
<b>RECREATION</b>			
Activity Fees	50,000	Executive Regulation 12-05 Method 3	Increase fee for Summer Fun Centers
Activity Fees	20,000	Executive Regulation 12-05 Method 3	Increase fee for non-county residents
Activity Fees	70,230	Executive Regulation 12-05 Method 3	Increase fee for Teen Programs
Activity Fees	55,000	Executive Regulation 12-05 Method 3	Increase fees for facility rentals for community centers
Activity Fees	70,000	Executive Regulation 12-05 Method 3	Increase fees for aquatic programs
<b>DEPARTMENT OF TRANSPORTATION</b>			
Rail-to-Bus Transfer	190,600	Council Resolution	Increase Rail-to-Bus Transfer from \$0.35 to \$0.75.
Taxi Passenger Vehicle License	400,000	Council Resolution	Increase renewal fee from \$325 to \$750 and ownership transfer fee from \$2,500 and \$5,000
Increase Vacuum Leaf Collection Fees	61,840	Council Resolution	Increase single family charge per household from \$93.04 to \$93.96.
<b>SOLID WASTE SERVICES</b>			
Increase Solid Waste Service Charges	1,648,980	Council Resolution	Increase single family charge per household from \$202.72 to \$209.85.
Increase Solid Waste Collection Fee	187,310	Council Resolution	Increase single family charge per household from \$73 to \$75.
<b>GRAND TOTAL</b>	<b>21,808,660</b>		

\* All changes are assumed to be effective July 1, 2009 except as noted.  
Revenues above do not include implementation costs.

## PROJECTED TOTAL USES OF RESOURCES (COMBINED USES)

(\$ Millions)

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
USE OF RESOURCES	App. FY09	Est. FY09	% Chg. FY09-10	% Chg. FY09-10	Rec. FY10	% Chg. FY10-11	Projected FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15
1 <b>Total Resources</b>	5-13-08	3-15-09	Rec / Bud	Rec / Est	3-15-09										
2 Revenues	3,776.3	3,708.6	0.5%	2.3%	3,795.3	2.9%	3,906.9	4.3%	4,075.8	4.1%	4,242.8	4.4%	4,428.8	4.6%	4,633.0
3 Beginning Reserves Undesignated	143.4	158.8	-22.3%	-29.8%	111.5	-30.5%	77.5	54.6%	119.8	10.6%	132.4	8.1%	143.2	8.3%	155.1
4 Beginning Reserves Designated	6.2	6.7	-100.0%	-100.0%	0.0		0.0		0.0		0.0		0.0		0.0
5 Net Transfers In	33.3	32.7	6.4%	8.4%	35.4	-83.3%	5.9	2.5%	6.0	2.5%	6.2	2.5%	6.4	2.5%	6.5
6 <b>Total Resources</b>	3,959.3	3,906.8	-0.4%	0.9%	3,942.1	1.2%	3,990.3	5.3%	4,201.6	4.3%	4,381.4	4.5%	4,578.4	4.7%	4,794.5
7 \$ Change from prior Budget	94.8	42.4			(17.1)		48.1		211.3		179.9		197.0		216.1
8 <b>Uses: Non-Agency</b>															
9 <b>Capital Investment ( a )</b>															
10 Debt Service: GO Bonds for all Agys.	230.6	207.9	-2.6%	8.0%	224.6	9.2%	245.2	9.3%	268.0	8.7%	291.2	6.6%	310.5	3.5%	321.4
11 Debt Service: Local Parks	4.7	4.7	5.8%	5.8%	5.0	0.0%	5.0	0.0%	5.0	0.0%	5.0	0.0%	5.0	0.0%	5.0
12 Debt Service: Leases	17.4	16.5	24.7%	31.4%	21.7	29.8%	28.1	8.8%	30.6	-15.3%	25.9	-2.7%	25.2	-5.7%	23.8
13 CIP Current Revenue	46.3	48.9	-28.5%	-32.3%	33.1	17.4%	38.9	-20.2%	31.0	42.2%	44.1	42.9%	63.0	0.0%	63.0
14 CIP Paygo	5.4	5.4	-75.7%	-75.7%	1.3	2179.4%	30.0	0.0%	30.0	0.0%	30.0	0.0%	30.0	0.0%	30.0
14a CIP Paygo Rec Tax	0.0	0.0	0.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
15 <b>Sub-total Capital</b>	304.4	283.4	-6.2%	0.8%	285.6	21.6%	347.2	5.0%	364.5	8.7%	396.2	9.5%	433.7	2.2%	443.1
16 <b>Other Uses</b>															
17 Set Aside: Potential Supplementals	0.0	18.0			0.0		20.0		20.0		20.0		20.0		20.0
18 Set Aside: Other Claims	2.6	0.1			2.5		2.5		0.0		0.0		0.0		0.0
19 Revenue Stabilization Fund	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
20 <b>Sub-total Other</b>	2.6	18.0			2.5		22.5		20.0		20.0		20.0		20.0
21 <b>Reserves</b>															
22 Revenue Stabilization Fund	119.6	119.6	0.0%	0.0%	119.6	0.0%	119.6	0.0%	119.6	0.0%	119.6	0.0%	119.6	0.0%	119.6
23 Reserve Undesignated	108.4	111.5	-28.6%	-30.5%	77.5	54.6%	119.8	110.6%	132.4	8.1%	143.2	8.3%	155.1	8.4%	168.0
24 Reserve Designated	8.7	0.0			0.0		0.0		0.0		0.0		0.0		0.0
25 <b>Sub-total Reserves</b>	236.8	231.1	-16.8%	-14.7%	197.1	21.5%	239.4	5.3%	252.1	4.3%	262.9	4.5%	274.7	4.7%	287.7
26 Less Revenue Stabilization Fund	(119.6)	(119.6)	0.0%	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)
27 Less Designated Reserve	(8.7)	0.0			0.0		0.0		0.0		0.0		0.0		0.0
28 <b>Sub-total Undesignated Reserves</b>	108.4	111.5	-28.6%	-30.5%	77.5	54.6%	119.8	10.6%	132.4	8.1%	143.2	8.3%	155.1	8.4%	168.0
29 <b>Total Uses: Non-Agency</b>	424.1	412.9	-13.8%	-11.5%	365.6	33.9%	489.5	5.6%	517.0	8.2%	559.4	8.8%	608.8	3.7%	631.1
30 <b>Uses: Available for Agency Services</b>	3,535.2	3,493.9	1.2%	2.4%	3,576.5	-2.1%	3,500.8	5.3%	3,684.6	3.7%	3,822.0	3.9%	3,969.6	4.9%	4,163.4
31 <b>\$ Change from prior Budget</b>	142.8	101.5			41.4		(75.7)		183.8		137.4		147.6		193.8

(a) See separate displays elsewhere in this book for allocation of Debt Service and CIP Current Revenue by Agency (A-3 Schedule).

(b) FY09-14 PAYGO, and CIP Current Revenue as recommended by the County Executive on January 15, 2009, with further changes to be transmitted shortly.

**REVENUE SUMMARY**  
**TAX SUPPORTED BUDGETS**  
(\$ Millions )

A KEY REVENUE CATEGORIES	B App. FY09	C Estimate FY09	D % Chg. FY09-10	E % Chg. FY09-10	F Rec FY10	G % Chg. FY10-11	H Projected FY11	I % Chg. FY11-12	J Projected FY12	K % Chg. FY12-13	L Projected FY13	M % Chg. FY13-14	N Projected FY14	O % Chg. FY14-15	P Projected FY15
<b>TAXES</b>	5-22-08	3-15-09	Rec/Bud	Rec/Est	3-15-09										
1 Property Tax (less PDs)	1,364.9	1,365.7	5.4%	5.3%	1,438.7	3.2%	1,484.6	3.8%	1,541.7	3.3%	1,592.6	3.2%	1,644.1	3.1%	1,695.5
2 Income Tax	1,325.4	1,281.8	-8.3%	-5.2%	1,214.8	5.4%	1,279.8	6.5%	1,362.9	6.7%	1,454.6	7.2%	1,559.1	7.7%	1,679.3
3 Transfer Tax	80.9	60.3	-19.7%	7.8%	65.0	4.8%	68.1	6.0%	72.1	8.5%	78.3	8.3%	84.8	9.7%	93.0
4 Recordation Tax	68.1	48.8	-23.8%	6.4%	51.9	4.0%	53.9	5.0%	56.7	7.2%	60.7	7.1%	65.1	8.4%	70.5
4a Recordation Tax Premium	0.0	3.5	0.0%	85.7%	6.5	-13.4%	5.6	-16.0%	4.7	-100.0%	0.0	0.0%	0.0	0.0%	0.0
5 Energy Tax	132.7	128.4	-1.8%	1.5%	130.4	2.3%	133.4	2.6%	136.8	2.1%	139.7	1.8%	142.3	1.7%	144.7
6 Telephone Tax	30.9	31.6	6.5%	4.0%	32.8	2.9%	33.8	2.4%	34.6	1.5%	35.1	1.8%	35.7	1.7%	36.3
7 Hotel/Motel Tax	19.9	18.7	0.7%	6.9%	20.0	7.4%	21.5	5.9%	22.8	5.2%	23.9	5.1%	25.2	5.3%	26.5
8 Admissions Tax	2.4	2.1	-9.7%	3.9%	2.1	-0.3%	2.1	-0.7%	2.1	-0.7%	2.1	-0.7%	2.1	-0.7%	2.1
9 <b>Total Local Taxes</b>	<b>3,025.1</b>	<b>2,940.8</b>	<b>-2.1%</b>	<b>0.7%</b>	<b>2,962.2</b>	<b>4.1%</b>	<b>3,082.8</b>	<b>4.9%</b>	<b>3,234.4</b>	<b>4.7%</b>	<b>3,387.0</b>	<b>5.1%</b>	<b>3,558.3</b>	<b>5.3%</b>	<b>3,747.9</b>
<b>INTERGOVERNMENTAL AID</b>															
10 Highway User	39.7	32.9	-16.7%	0.3%	33.0	2.6%	33.9	2.6%	34.8	2.5%	35.6	2.5%	36.5	2.5%	37.5
11 Police Protection	13.5	13.4	0.1%	0.9%	13.5	1.2%	13.7	1.2%	13.8	1.2%	14.0	1.2%	14.1	1.2%	14.3
12 Libraries	5.3	5.3	0.0%	0.0%	5.3	1.2%	5.3	1.2%	5.4	1.2%	5.5	1.2%	5.5	1.2%	5.6
13 Health Services Case Formula	6.3	6.1	-3.0%	0.0%	6.1	2.8%	6.3	2.5%	6.4	2.5%	6.6	2.5%	6.7	2.5%	6.9
14 Mass Transit	27.8	22.8	-18.0%	0.0%	22.8	2.8%	23.4	2.5%	24.0	2.5%	24.6	2.5%	25.2	2.5%	25.9
15 Public Schools	399.3	423.5	17.8%	11.1%	470.4	-3.4%	454.2	1.2%	459.8	1.2%	465.4	1.2%	471.1	1.2%	476.9
16 Community College	31.5	30.3	6.2%	10.7%	33.5	2.8%	34.4	2.5%	35.3	2.5%	36.2	2.5%	37.1	2.5%	38.0
17 Direct Reimbursements	26.0	28.0	6.8%	-0.8%	27.8	3.4%	28.8	3.1%	29.6	3.1%	30.6	3.1%	31.5	3.1%	32.5
17a Direct Reimb: DSS Services	0.0	0.0	0.0%	0.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
18 Other	12.6	11.3	-20.2%	-11.2%	10.0	3.4%	10.4	3.1%	10.7	3.1%	11.0	3.1%	11.4	3.1%	11.7
19 <b>Subtotal State Aid</b>	<b>562.0</b>	<b>573.5</b>	<b>10.8%</b>	<b>8.5%</b>	<b>622.4</b>	<b>-1.9%</b>	<b>610.3</b>	<b>1.6%</b>	<b>619.8</b>	<b>1.6%</b>	<b>629.4</b>	<b>1.6%</b>	<b>639.2</b>	<b>1.6%</b>	<b>649.2</b>
20 Federal Aid	1.6	1.8	1.7%	-7.7%	1.7	1.7%	1.7	1.5%	1.7	1.5%	1.7	1.5%	1.8	1.5%	1.8
21 <b>Total Intergovernmental Aid</b>	<b>563.6</b>	<b>575.3</b>	<b>10.7%</b>	<b>8.5%</b>	<b>624.1</b>	<b>-1.9%</b>	<b>612.0</b>	<b>1.6%</b>	<b>621.5</b>	<b>1.6%</b>	<b>631.2</b>	<b>1.6%</b>	<b>641.0</b>	<b>1.6%</b>	<b>651.0</b>
<b>FEES AND FINES</b>															
22 Licenses & Permits	12.9	12.2	-7.4%	-2.4%	11.9	1.5%	12.1	1.5%	12.3	1.5%	12.5	1.5%	12.6	1.5%	12.8
23 Charges for Services	52.2	51.4	26.3%	28.3%	65.9	2.2%	67.4	2.0%	68.7	2.0%	70.1	2.0%	71.5	2.0%	73.0
24 Fines & Forfeitures	26.1	32.0	45.9%	18.7%	38.0	1.6%	38.7	1.6%	39.3	1.6%	39.9	1.6%	40.5	1.6%	41.2
25 Montgomery College Tuition	68.6	68.8	3.7%	3.4%	71.1	1.6%	72.3	0.6%	72.7	0.5%	73.0	0.2%	73.2	0.0%	73.2
26 <b>Total Fees and Fines</b>	<b>159.7</b>	<b>164.4</b>	<b>17.1%</b>	<b>13.7%</b>	<b>187.0</b>	<b>1.8%</b>	<b>190.4</b>	<b>1.4%</b>	<b>193.0</b>	<b>1.3%</b>	<b>195.5</b>	<b>1.2%</b>	<b>197.9</b>	<b>1.1%</b>	<b>200.1</b>
<b>MISCELLANEOUS</b>															
27 Investment Income	14.6	6.7	-59.8%	-12.1%	5.9	55.2%	9.1	52.9%	14.0	13.4%	15.9	13.9%	18.1	10.9%	20.0
28 Other Miscellaneous	13.3	21.3	21.4%	-24.4%	16.1	2.8%	12.6	2.5%	12.9	2.5%	13.2	2.5%	13.5	2.5%	13.9
29 <b>Total Miscellaneous</b>	<b>27.9</b>	<b>28.0</b>	<b>-21.2%</b>	<b>-21.5%</b>	<b>22.0</b>	<b>-1.3%</b>	<b>21.7</b>	<b>23.8%</b>	<b>26.9</b>	<b>8.2%</b>	<b>29.0</b>	<b>8.7%</b>	<b>31.6</b>	<b>7.3%</b>	<b>33.9</b>
30 <b>TOTAL REVENUES</b>	<b>3,776.3</b>	<b>3,708.6</b>	<b>0.5%</b>	<b>2.3%</b>	<b>3,795.3</b>	<b>2.9%</b>	<b>3,906.9</b>	<b>4.3%</b>	<b>4,075.8</b>	<b>4.1%</b>	<b>4,242.8</b>	<b>4.4%</b>	<b>4,428.8</b>	<b>4.6%</b>	<b>4,633.0</b>
31 \$ Change from prior Budget	201.0	133.3			18.9		111.7		168.8		167.0		186.0		204.2

## County Executive's Recommended FY10-15 Public Services Program

## Tax Supported Fiscal Plan Summary

(\$ in Millions)															
	App. FY09	Est. FY09	% Chg. FY09-10 Rec/Bud	% Chg. FY09-10 Rec/Est	Rec. FY10 3-15-09	% Chg. FY10-11	Projected FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15
<b>Total Resources</b>	<b>5-22-08</b>	<b>3-15-09</b>													
Revenues	3,776.3	3,708.6	0.5%	2.3%	3,795.3	2.9%	3,906.9	4.3%	4,075.8	4.1%	4,242.8	4.4%	4,428.8	4.6%	4,633.0
Beginning Reserves Undesignated	143.4	158.8	-22.3%	-29.8%	111.5	-30.5%	77.5	54.6%	119.8	10.6%	132.4	8.1%	143.2	8.3%	155.1
Beginning Reserves Designated	6.2	6.7	-100.0%	-100.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Net Transfers In (Out)	33.3	32.7	6.4%	8.4%	35.4	-83.3%	5.9	2.5%	6.0	2.5%	6.2	2.5%	6.4	2.5%	6.5
<b>Total Resources Available</b>	<b>3,959.3</b>	<b>3,906.8</b>	<b>-0.4%</b>	<b>0.9%</b>	<b>3,942.1</b>	<b>1.2%</b>	<b>3,990.3</b>	<b>5.3%</b>	<b>4,201.6</b>	<b>4.3%</b>	<b>4,381.4</b>	<b>4.5%</b>	<b>4,578.4</b>	<b>4.7%</b>	<b>4,794.5</b>
<b>Less Other Uses of Resources (Capital, Debt Service, Reserve)</b>	<b>424.1</b>	<b>412.9</b>	<b>-13.8%</b>	<b>-11.5%</b>	<b>365.6</b>	<b>33.9%</b>	<b>489.5</b>	<b>5.6%</b>	<b>517.0</b>	<b>8.2%</b>	<b>559.4</b>	<b>8.8%</b>	<b>608.8</b>	<b>3.7%</b>	<b>631.1</b>
<b>Available to Allocate to Agencies</b>	<b>3,535.2</b>	<b>3,493.9</b>	<b>1.2%</b>	<b>2.4%</b>	<b>3,576.5</b>	<b>-2.1%</b>	<b>3,500.8</b>	<b>5.3%</b>	<b>3,684.6</b>	<b>3.7%</b>	<b>3,822.0</b>	<b>3.9%</b>	<b>3,969.6</b>	<b>4.9%</b>	<b>4,163.4</b>
<b>Agency Uses</b>															
Montgomery County Public Schools (MCPS)	1,937.0	1,917.9	2.0%	3.0%	1,975.5	8.1%	2,136.4	7.4%	2,295.2	7.4%	2,464.3	7.3%	2,644.4	7.3%	2,836.4
Montgomery College (MC)	212.4	205.7	2.8%	6.1%	218.2	7.8%	235.3	7.5%	253.0	7.5%	272.1	7.5%	292.4	7.4%	314.2
MNCPPC (w/o Debt Service)	106.4	103.9	2.4%	4.8%	109.0	8.0%	117.7	6.8%	125.7	6.7%	134.1	6.6%	143.0	6.3%	152.0
MCG	1,279.4	1,266.3	-0.4%	0.6%	1,273.8	8.5%	1,381.6	7.0%	1,479.0	6.9%	1,581.8	6.9%	1,690.3	6.8%	1,806.1
<b>Subtotal Agency Uses</b>	<b>3,535.2</b>	<b>3,493.9</b>	<b>1.2%</b>	<b>2.4%</b>	<b>3,576.5</b>	<b>8.2%</b>	<b>3,871.0</b>	<b>7.3%</b>	<b>4,152.9</b>	<b>7.2%</b>	<b>4,452.3</b>	<b>7.1%</b>	<b>4,770.2</b>	<b>7.1%</b>	<b>5,108.6</b>
<b>Subtotal Other Uses of Resources (Capital, Debt Service, Reserve)</b>	<b>424.1</b>	<b>412.9</b>	<b>-13.8%</b>	<b>-11.5%</b>	<b>365.6</b>	<b>33.9%</b>	<b>489.5</b>	<b>5.6%</b>	<b>517.0</b>	<b>8.2%</b>	<b>559.4</b>	<b>8.8%</b>	<b>608.8</b>	<b>3.7%</b>	<b>631.1</b>
<b>Total Uses</b>	<b>3,959.3</b>	<b>3,906.8</b>	<b>-0.4%</b>	<b>0.9%</b>	<b>3,942.1</b>	<b>10.6%</b>	<b>4,360.5</b>	<b>7.1%</b>	<b>4,669.9</b>	<b>7.3%</b>	<b>5,011.7</b>	<b>7.3%</b>	<b>5,378.9</b>	<b>6.7%</b>	<b>5,739.8</b>
<b>(Gap)/Available</b>	<b>-</b>	<b>-</b>			<b>-</b>		<b>(370.3)</b>		<b>(468.4)</b>		<b>(630.2)</b>		<b>(800.5)</b>		<b>(945.2)</b>

## Notes:

1. FY11-15 property tax revenues are at the Charter Limit.
2. Projected FY11-15 Agency Uses are based on 10-year average rate of growth plus scheduled increases for pre-funding retiree health insurance.
3. Reserves are restored to the policy level of 6% of total resources in FY11.

**Sec. 305. Approval of the Budget; Tax Levies.**

The Council may add to, delete from, increase or decrease any appropriation item in the operating or capital budget. The Council shall approve each budget, as amended, and appropriate the funds therefor not later than June 1 of the year in which it is submitted.

An aggregate operating budget which exceeds the aggregate operating budget for the preceding fiscal year by a percentage increase greater than the annual average increase of the Consumer Price Index for all urban consumers for the Washington-Baltimore metropolitan area, or any successor index, for the twelve months preceding December first of each year requires the affirmative vote of six Councilmembers. For the purposes of this section, the aggregate operating budget does not include: (1) the operating budget for any enterprise fund; (2) the operating budget for the Washington Suburban Sanitary Commission; (3) expenditures equal to tuition and tuition-related charges estimated to be received by Montgomery College; and (4) any grant which can only be spent for a specific purpose and which cannot be spent until receipt of the entire amount of revenue is assured from a source other than County government.

The Council shall annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and aggregate operating budgets. The Council shall by law establish the process and criteria for adopting spending affordability guidelines. Any aggregate capital budget or aggregate operating budget that exceeds the guidelines then in effect requires the affirmative vote of seven Councilmembers for approval.

**By June 30 each year, the Council shall make tax levies deemed necessary to finance the budgets. Unless approved by an affirmative vote of nine, not seven, Councilmembers, the Council shall not levy an ad valorem tax on real property to finance the budgets that will produce total revenue that exceeds the total revenue produced by the tax on real property in the preceding fiscal year plus a percentage of the previous year's real property tax revenues that equals any increase in the Consumer Price Index as computed under this section. This limit does not apply to revenue from: (1) newly constructed property, (2) newly rezoned property, (3) property that, because of a change in state law, is assessed differently than it was assessed in the previous tax year, (4) property that has undergone a change in use, and (5) any development district tax used to fund capital improvement projects. (Election of 11-7-78; election of 11-6-84; election of 11-6-90; election of 11-3-92; election of 11-8-94; election of 11-3-98; election of 11-4-08.)**

# **Presentation of Economic Indicators**

To the  
Management and Fiscal Policy Committee

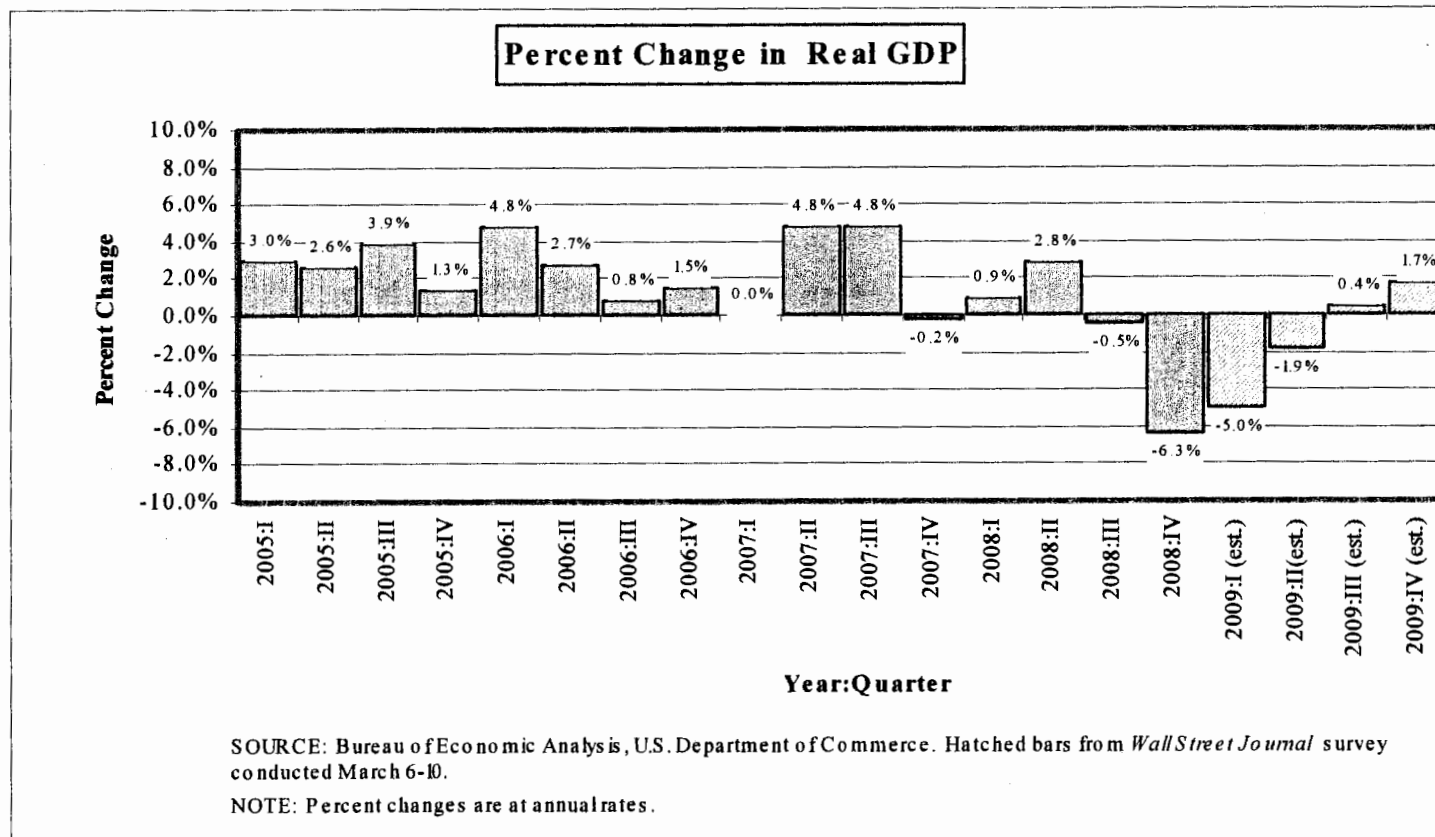
By the  
Department of Finance

April 2, 2009

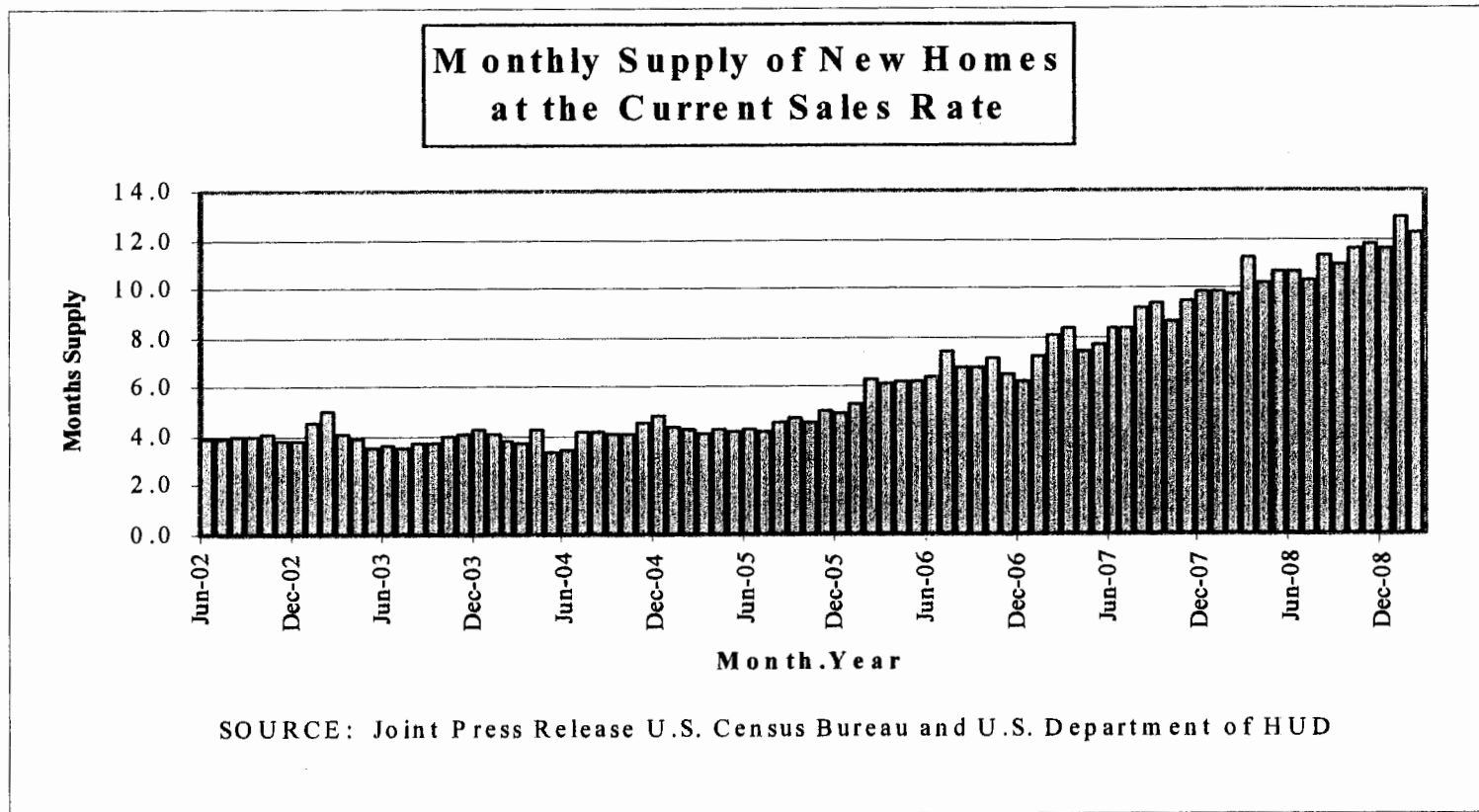


# **National Economic Indicators**

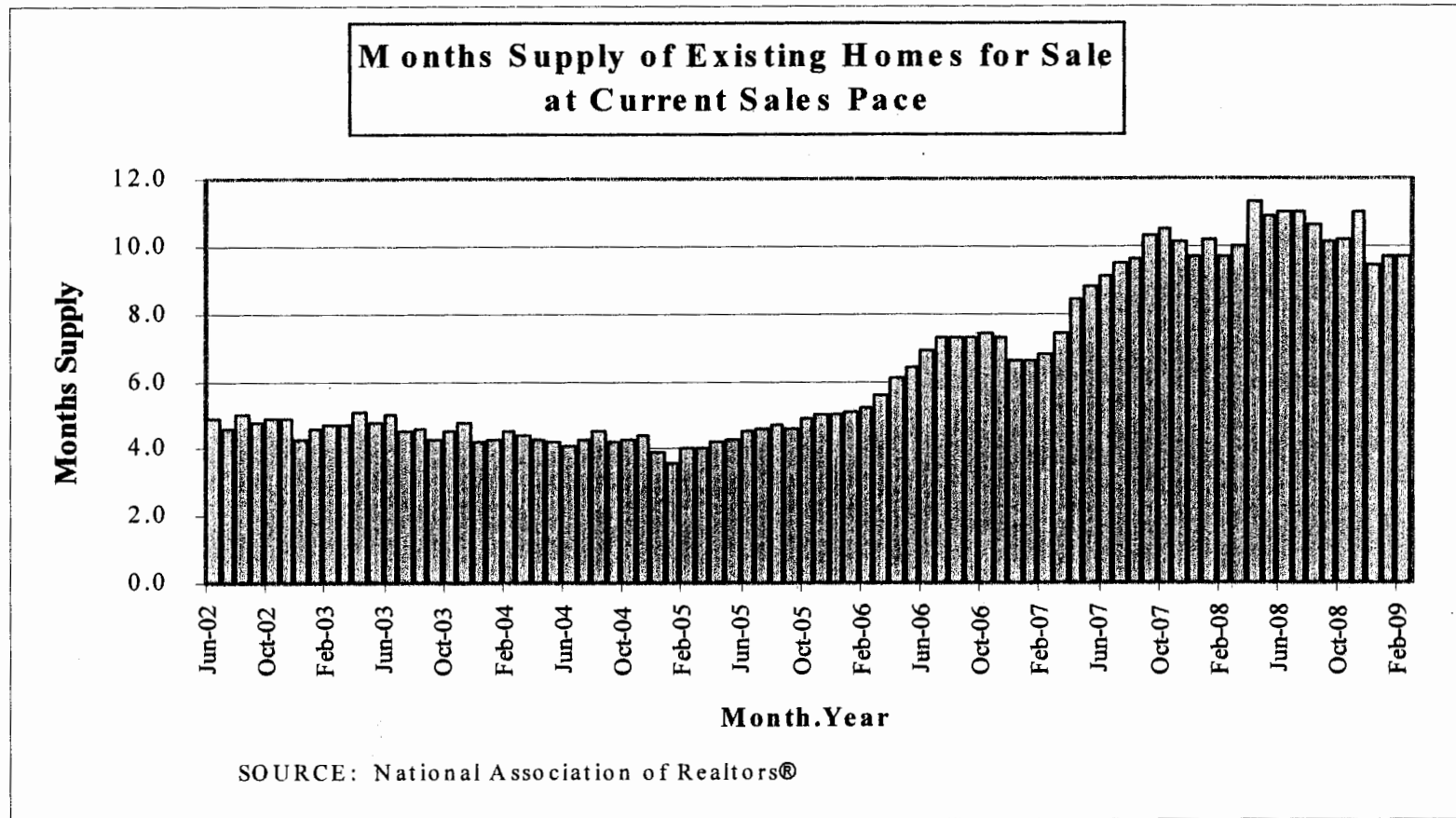
**BEA reported that real GDP decreased 6.3 percent during fourth quarter of 2008.**  
**On average over 50 economists surveyed by *The Wall Street Journal* expect GDP to decline 5.0 percent and 1.3 percent during the first and second quarters of this year, respectively, followed by a slight recovery during the second half of this year.**



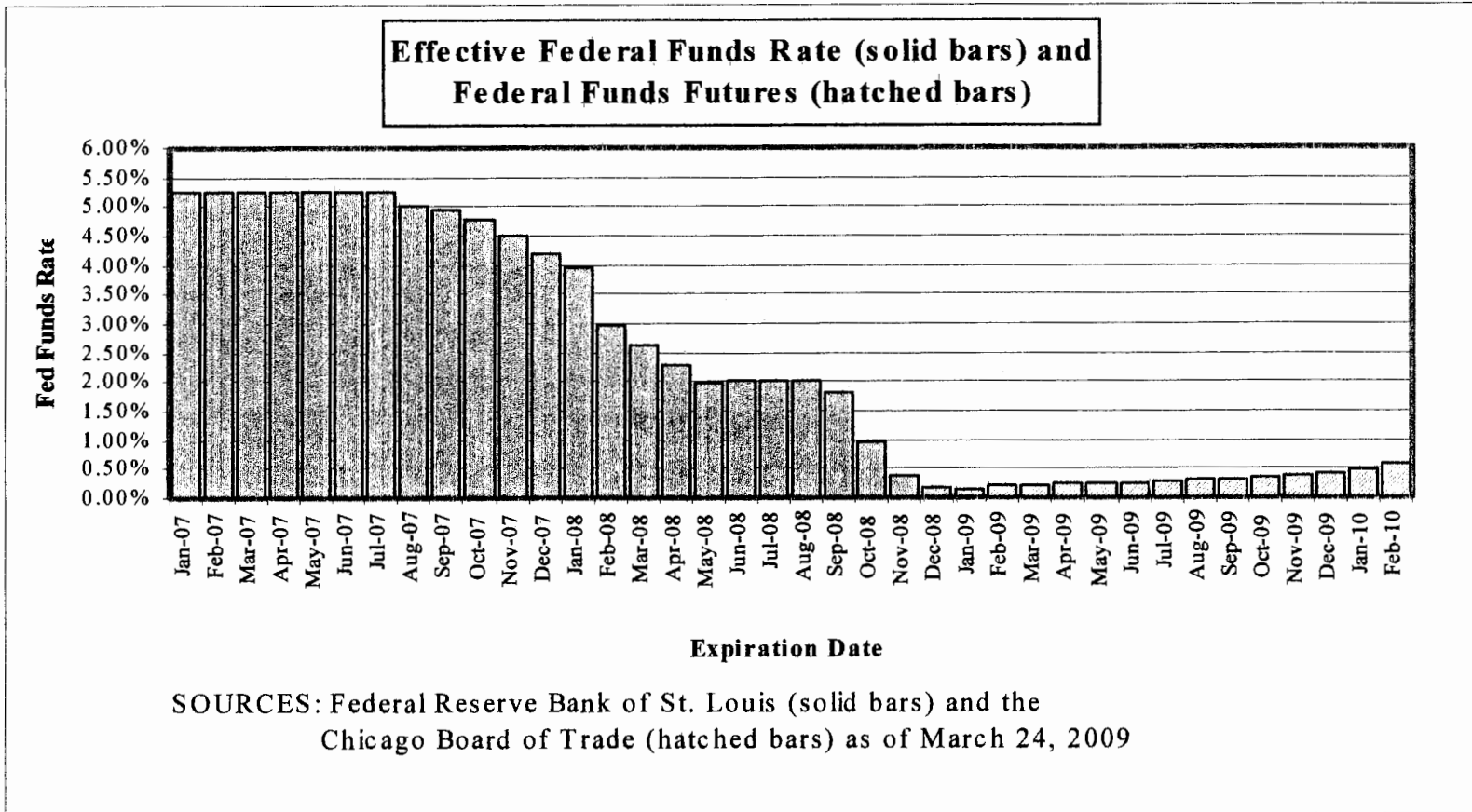
**Since March '08, the monthly supply of new homes for sale has averaged over 11 months at the current sales rate.**



**The monthly supply of existing homes for sale has averaged 10 months since March '08 — at current sales pace. However, for the past three months that level has fallen below 10 months.**

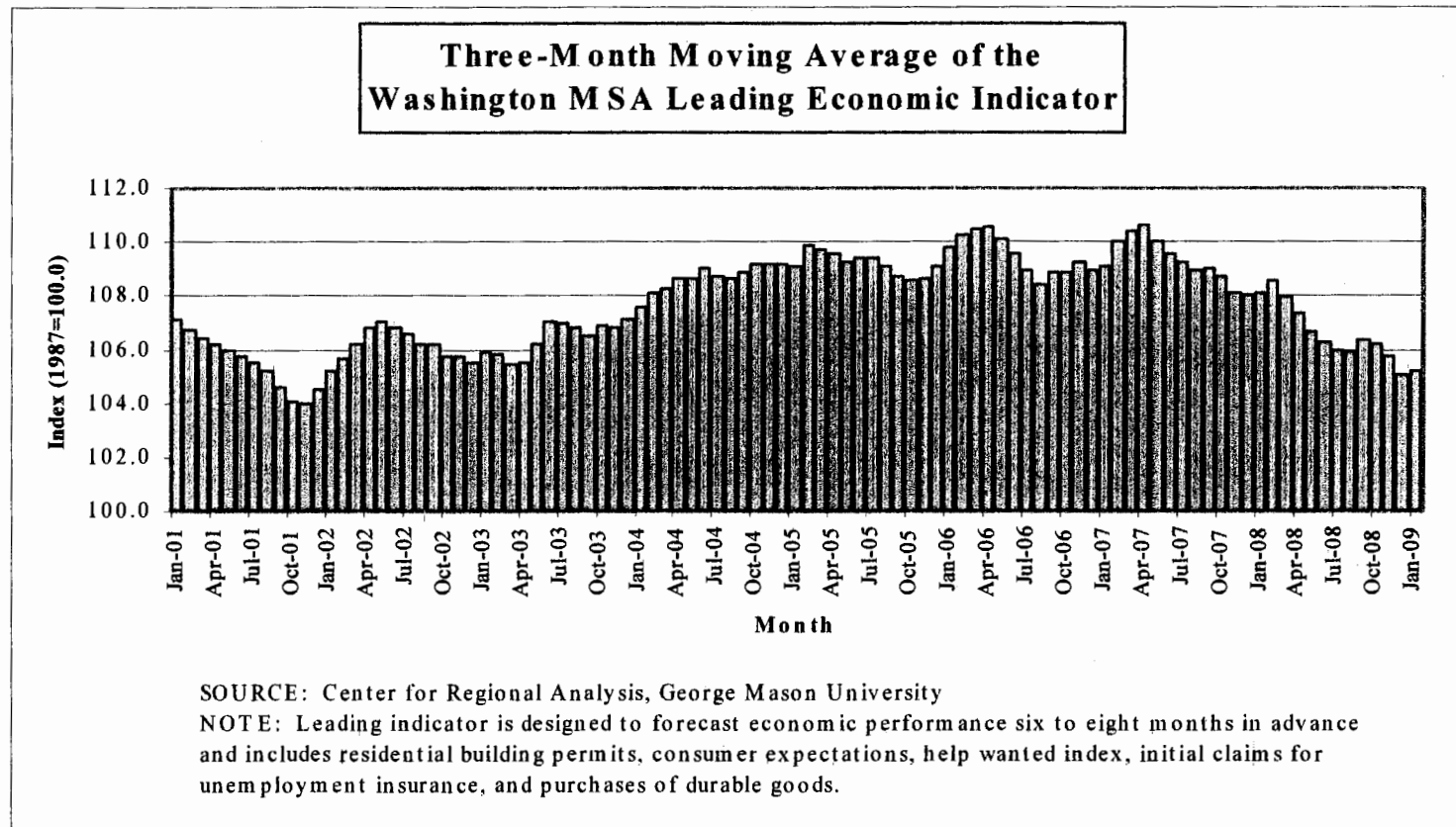


**On March 18th, the Federal Open Market Committee of the Federal Reserve decided to keep its target range for the federal funds rate at 0 to 0.25 percent. The futures market anticipates no changes to the target range until the end of this year or the beginning of next year.**

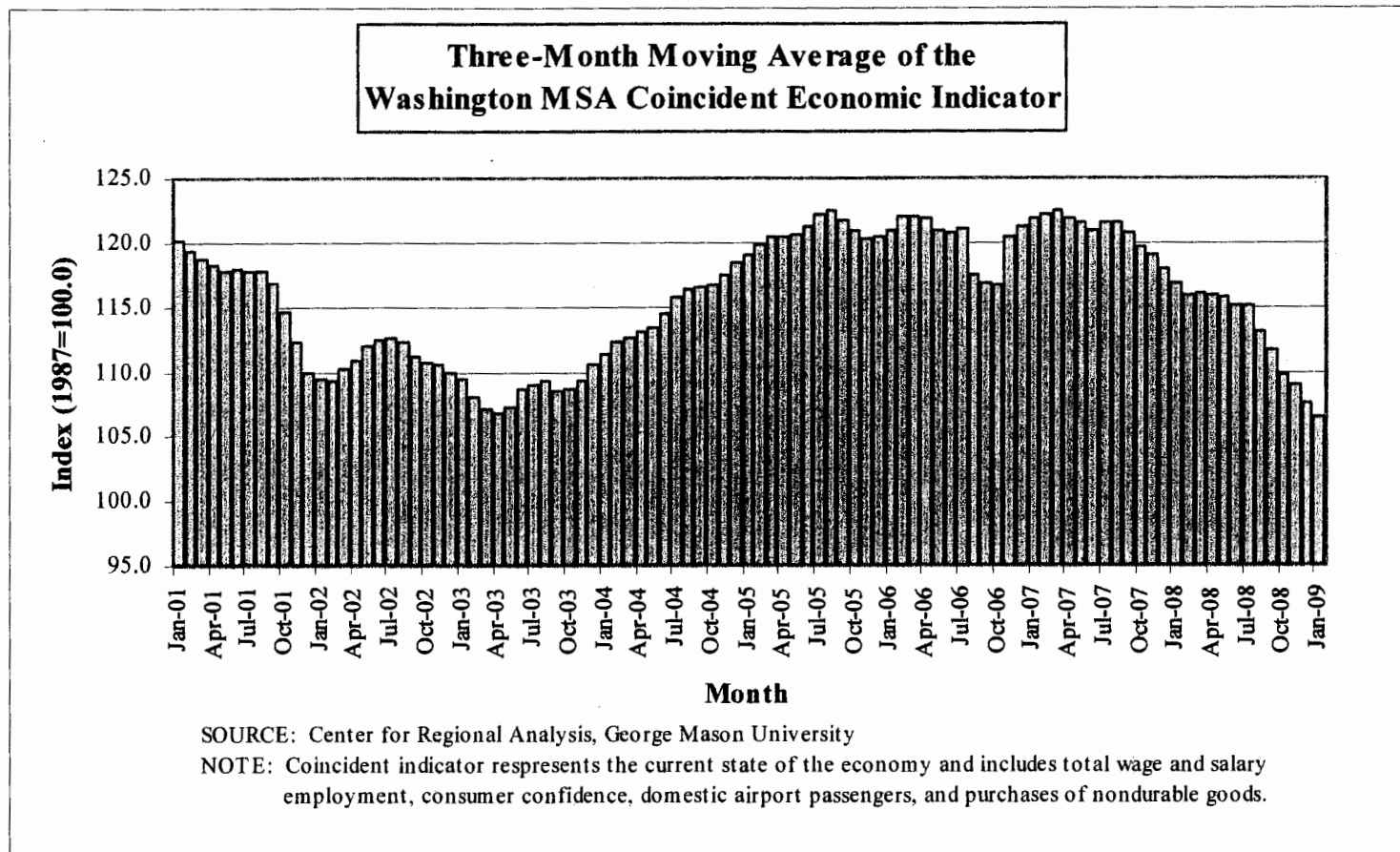


# **Regional Economic Indicators**

**Although the leading index increased in January, overall the index has declined 4.0 percent since April '07. The Center for Regional Analysis estimates that the index will not achieve a positive trend until the second quarter.**

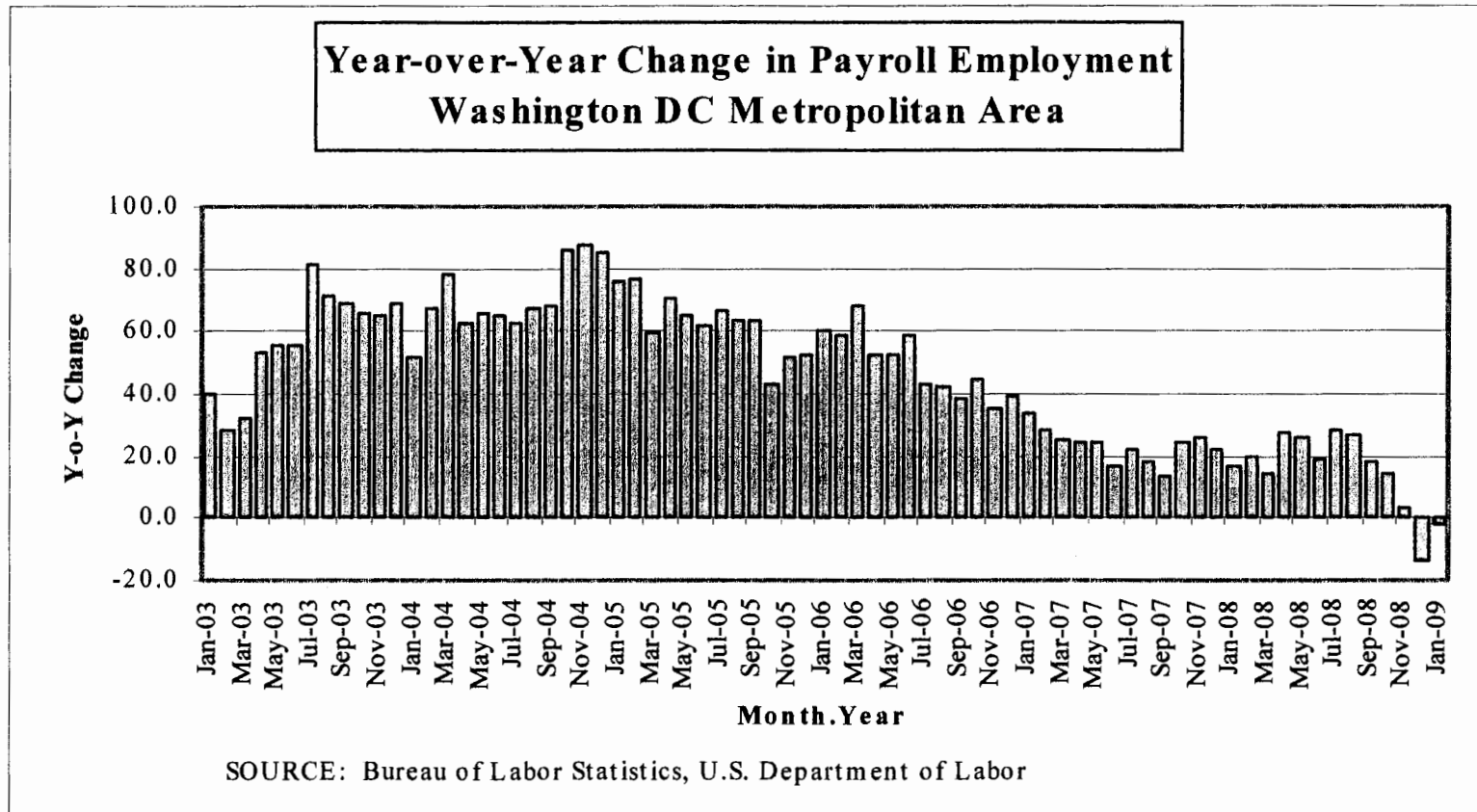


**Led by the dramatic decline in consumer confidence since March 2007, the coincident economic indicator, which measures the current performance of the region's economy, has declined steadily since then (↓12.4%).**

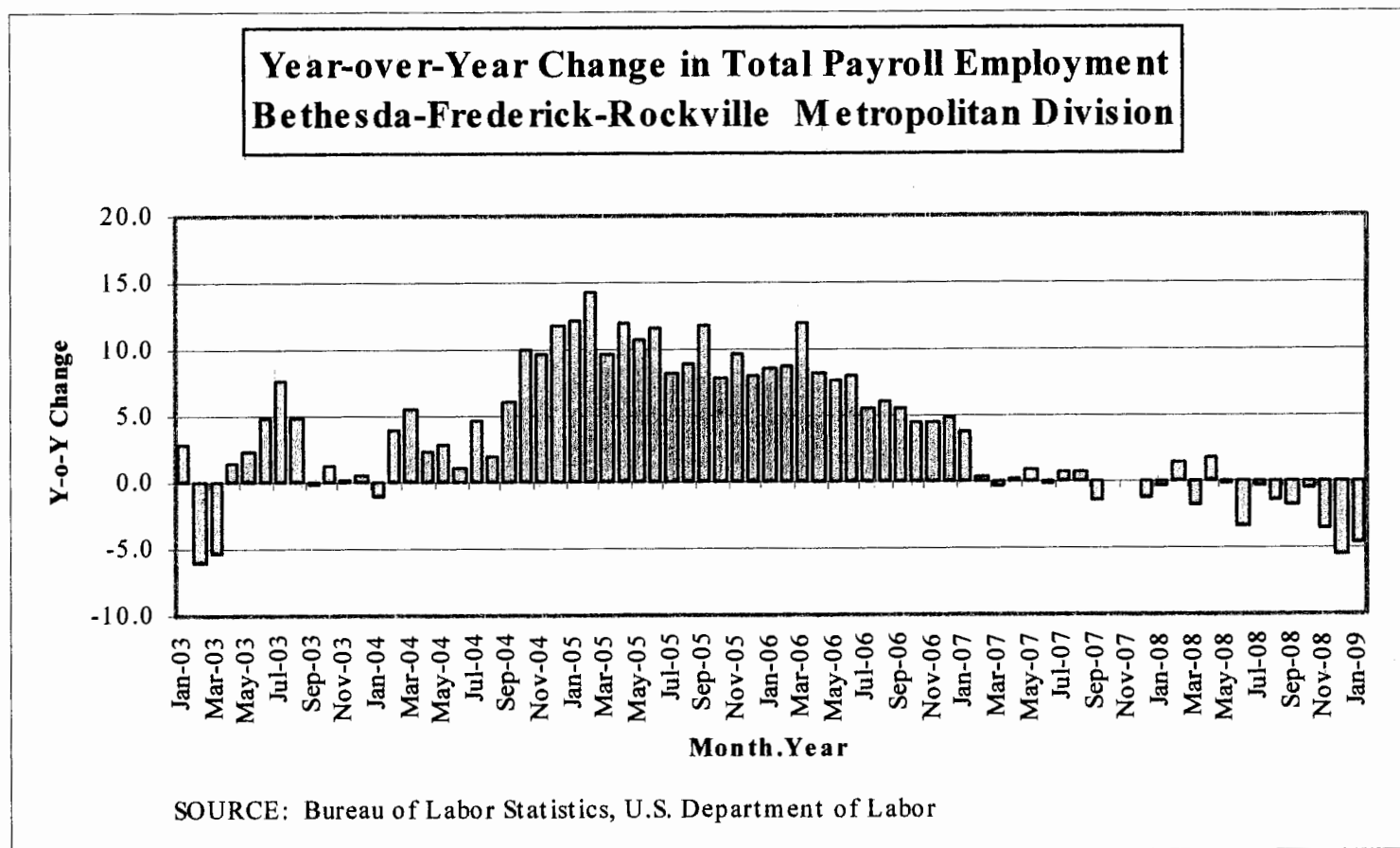




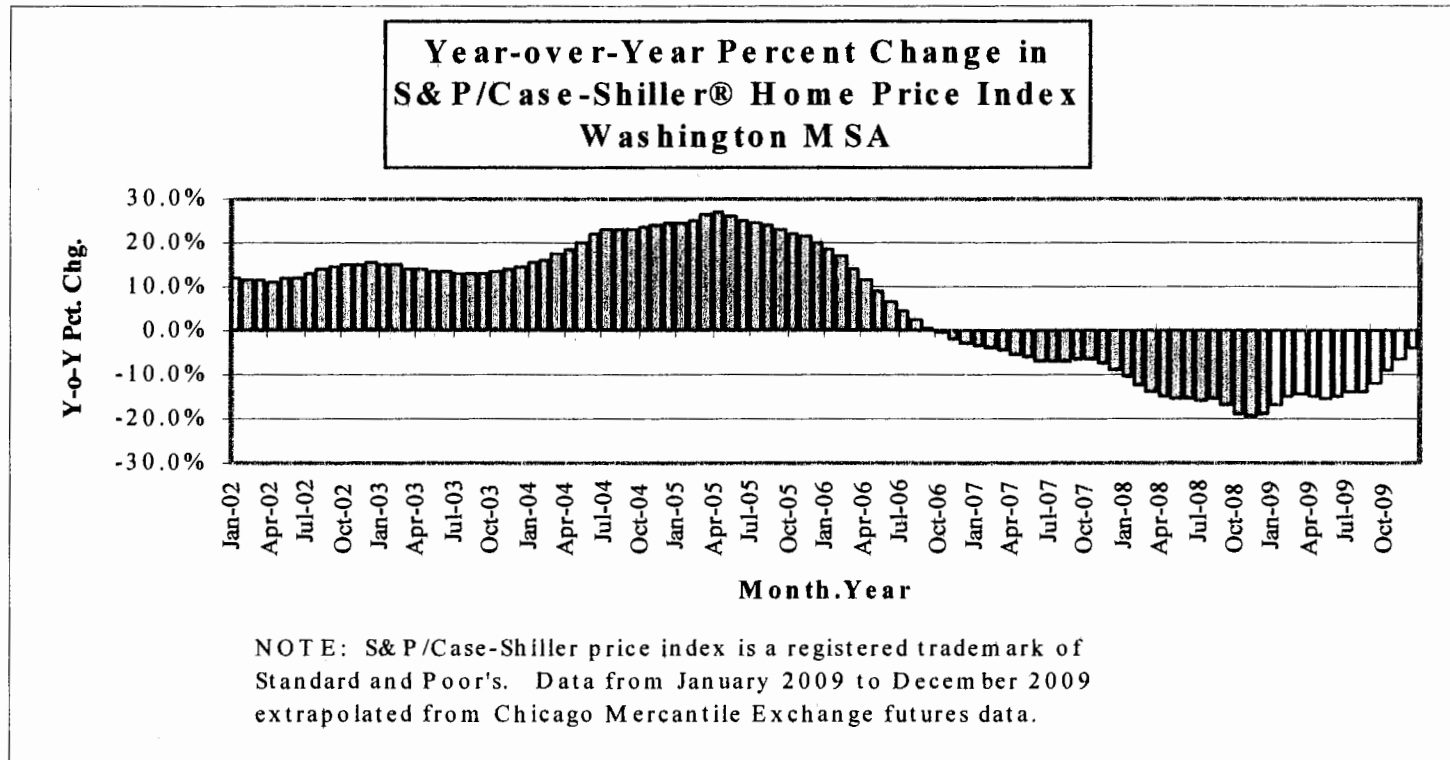
**While the slowdown in the region's economy is reflected in consumer confidence and the decline in the stock market, the Washington area still added nearly 16,700 jobs in 2008 ( $\uparrow 0.6\%$ ), albeit at a much slower pace than in previous years.**



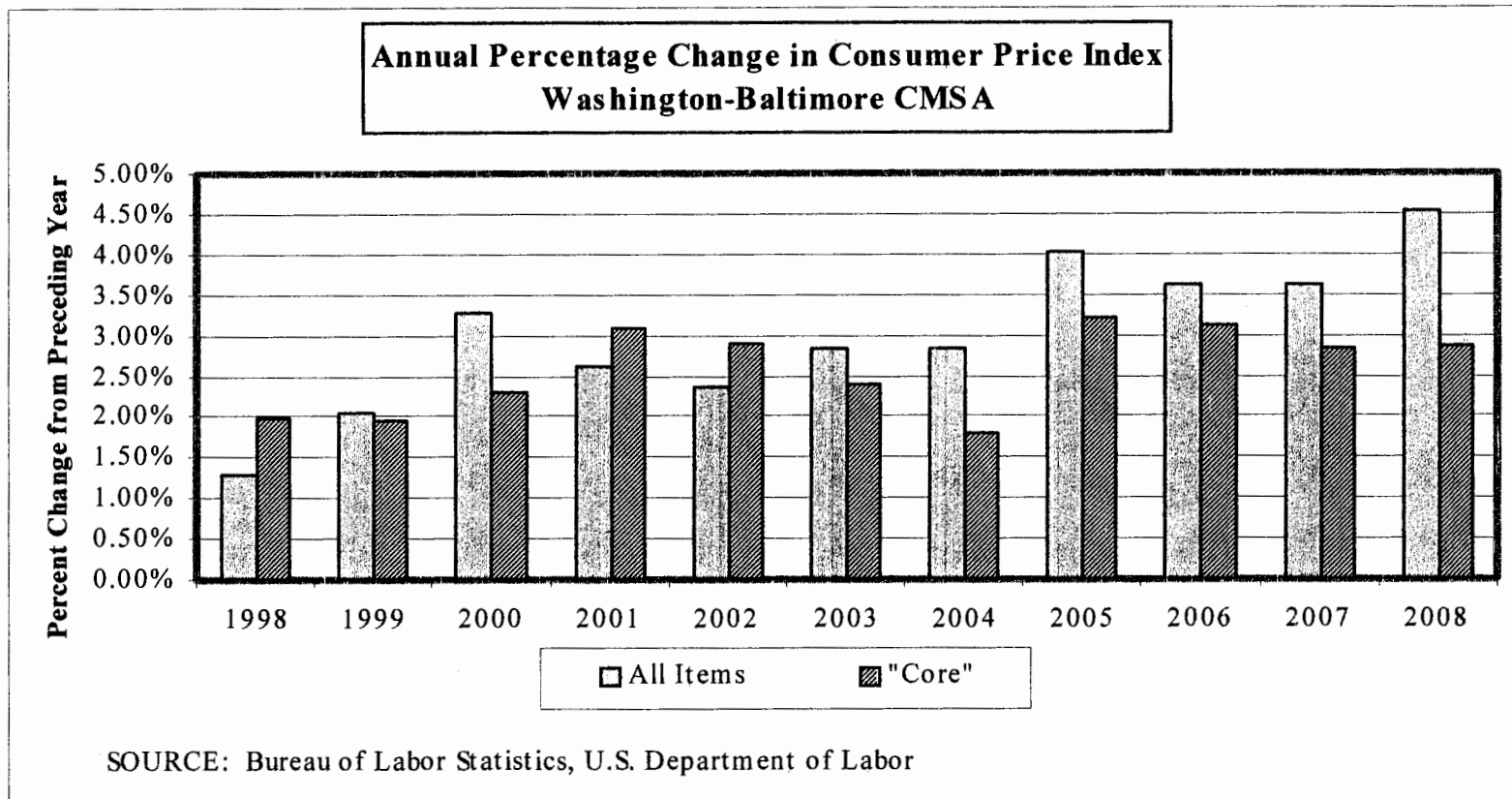
**While the region's economy continued to add jobs, Montgomery and Frederick Counties lost jobs during 2008 (↓1,300). Total payroll employment in 2008 stood at 575,200 compared to 576,500 in 2007.**



**Based on the Case-Shiller® index, home prices in the Washington region decreased 19.2 percent in December '08 compared to December '07. The futures market suggests the region could expect further declines through the remainder of this year albeit at a slower pace.**

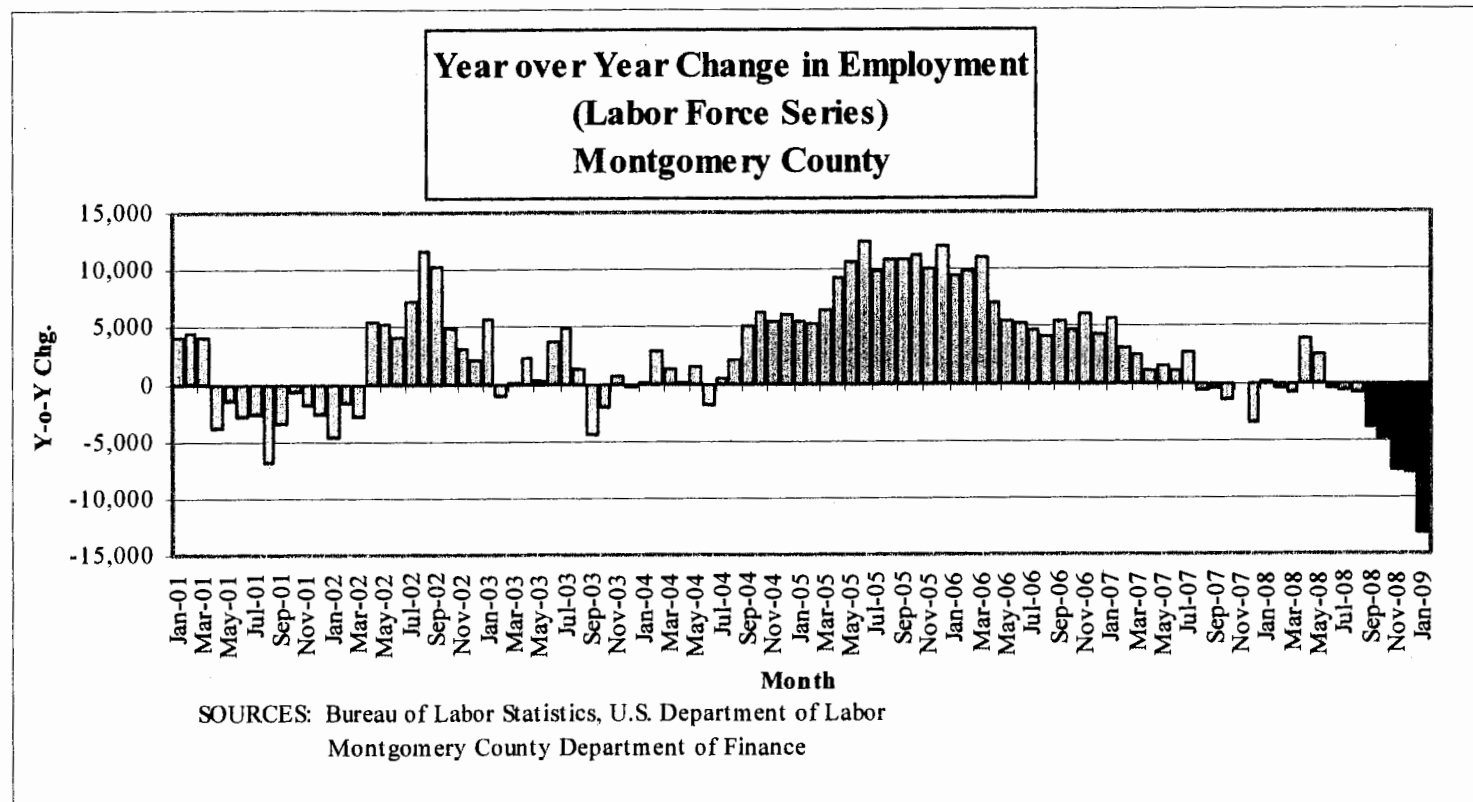


**On an annual basis, consumer prices for all items increased 4.5% in 2008 while “core” inflation (all items excluding food and energy) increased 2.9%. Most of the price increases for all items occurred during the summer months (5.4%).**

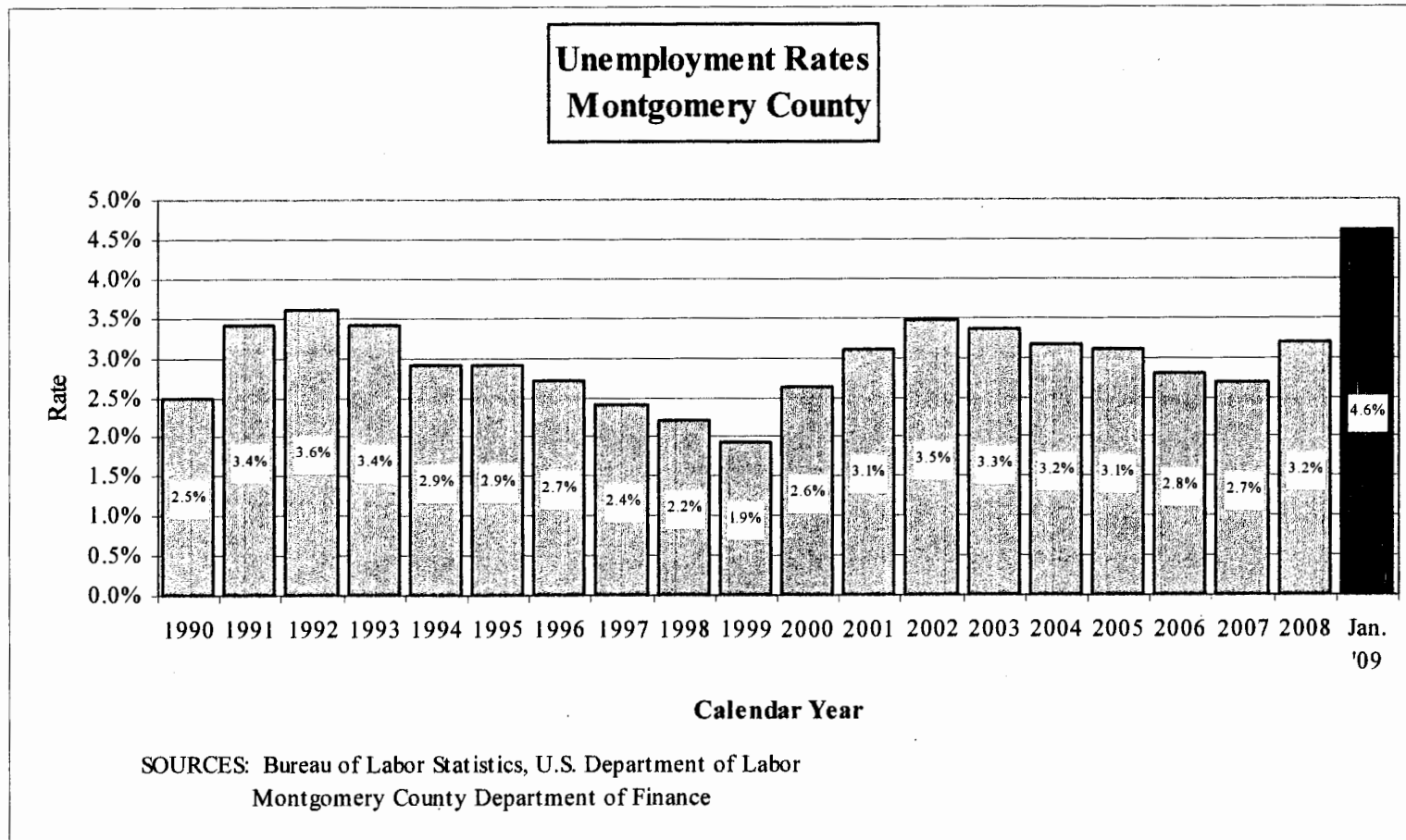


# **Montgomery County Economic Indicators**

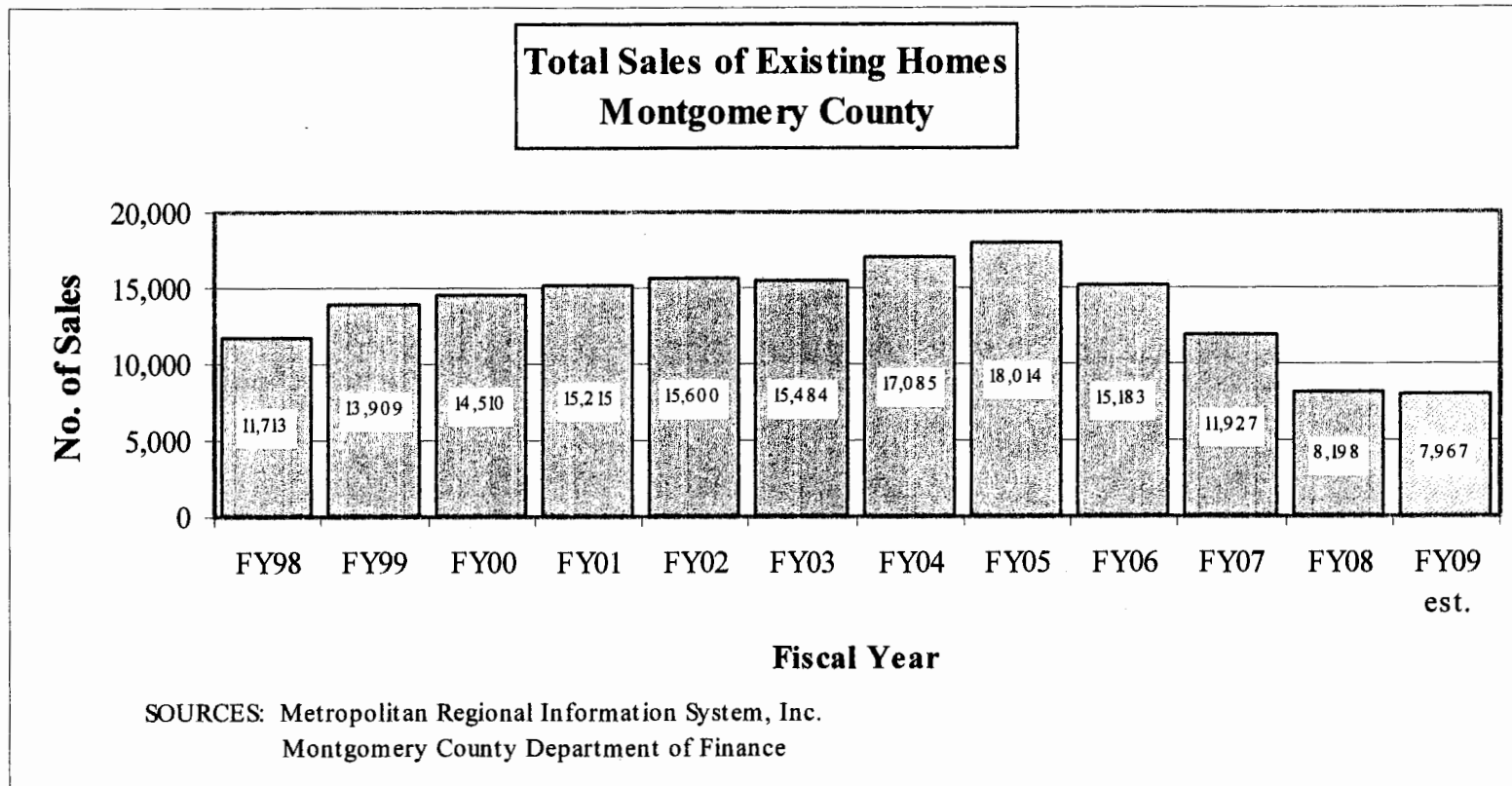
**Comparing the averages of each monthly resident employment number for 2006 (498,078), 2007 (499,017), and 2008 (497,249); resident employment in Montgomery County fell by nearly 1,800. Comparing January '08 to January '09, employment declined by over 13,000.**



**Because of the decline in employment in January the County's unemployment rate increased to 4.6 percent – up from the revised 3.8 percent in December and up from 2.8 percent January '08. The State's unemployment rate was 6.7 percent (not seasonally adjusted).**

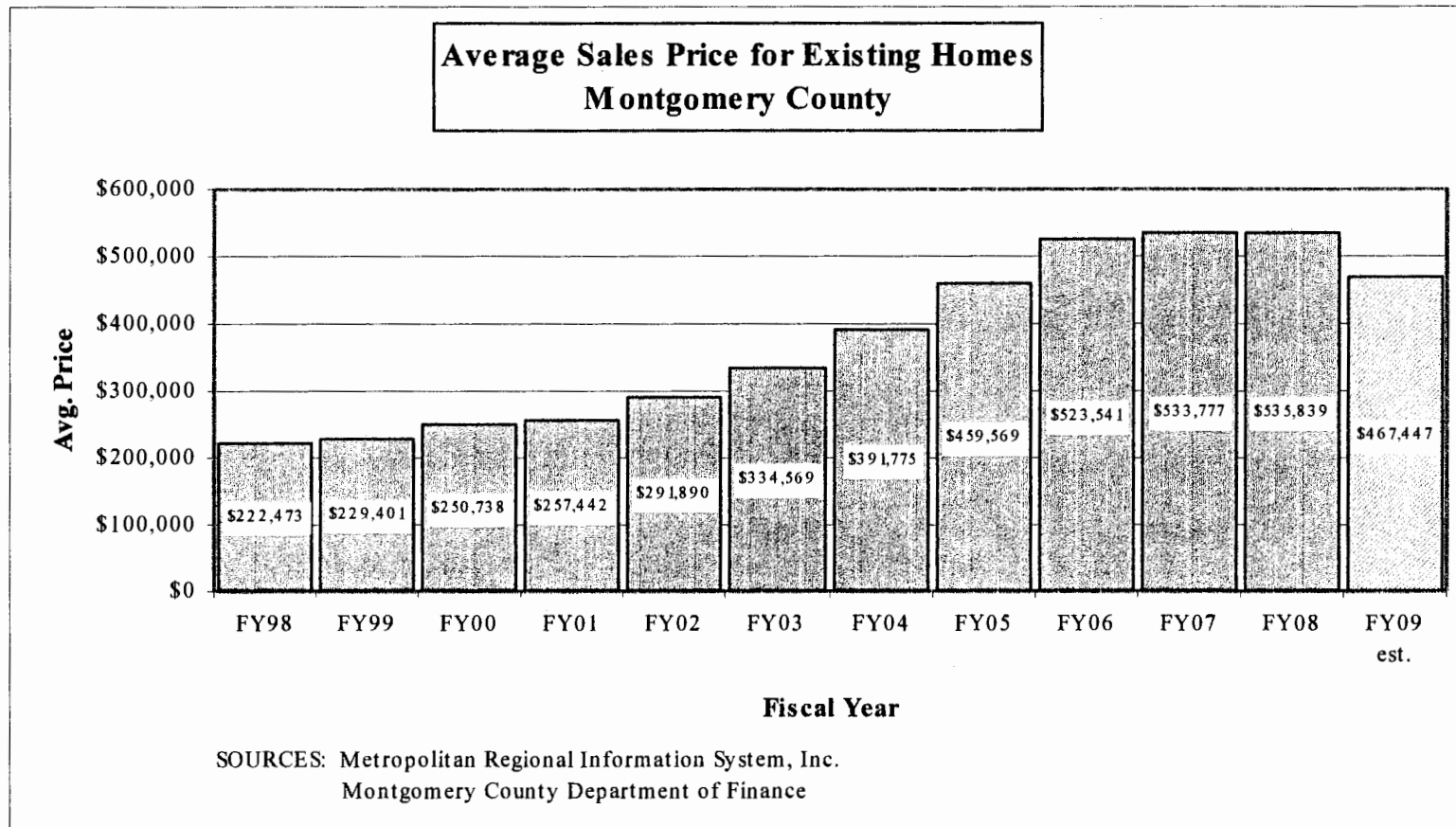


**Finance estimates that home sales could decline an additional 2.8 percent in FY09 compared to ↓21.4 percent in FY07 and ↓31.3 percent in FY08.**

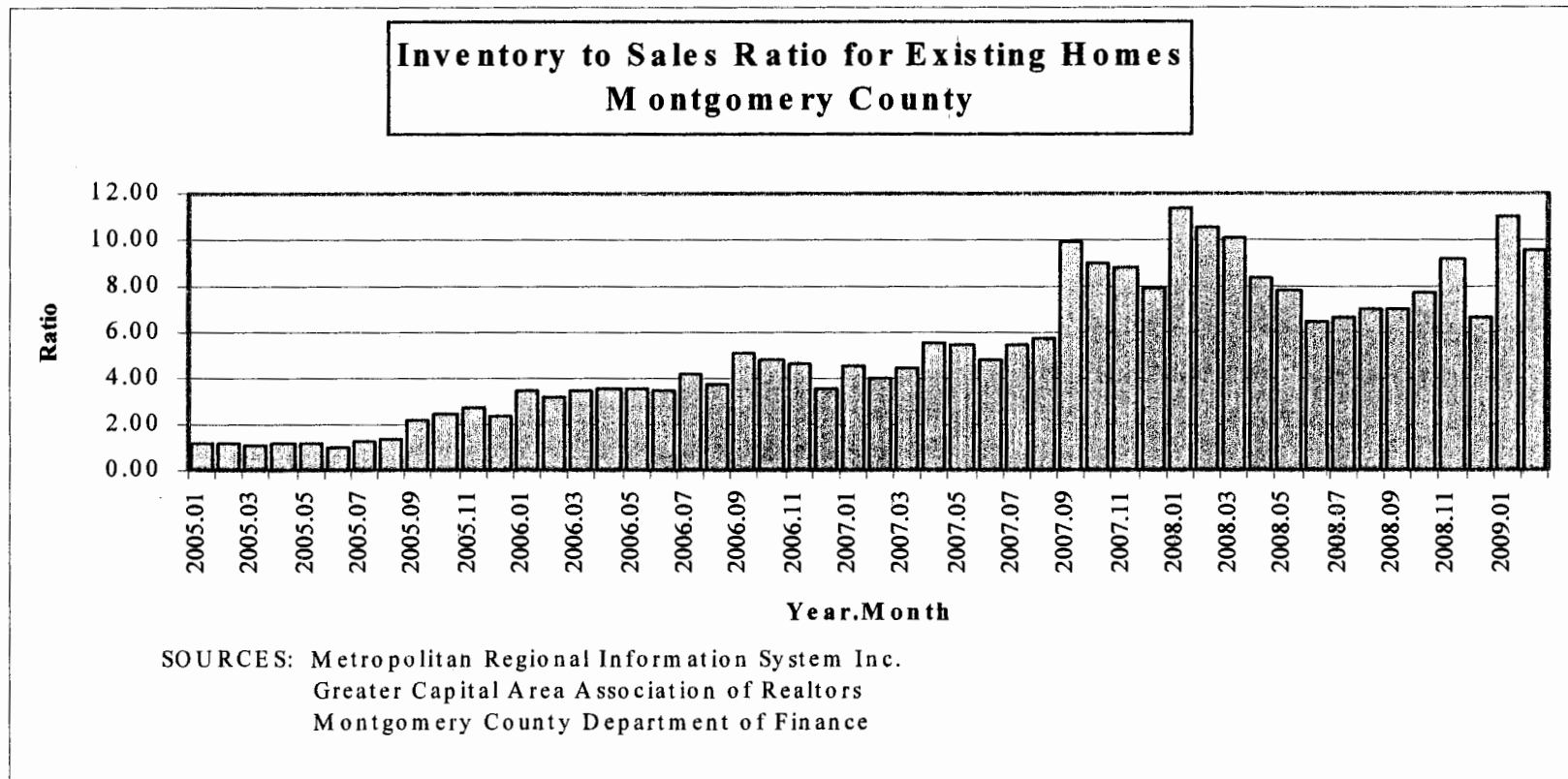




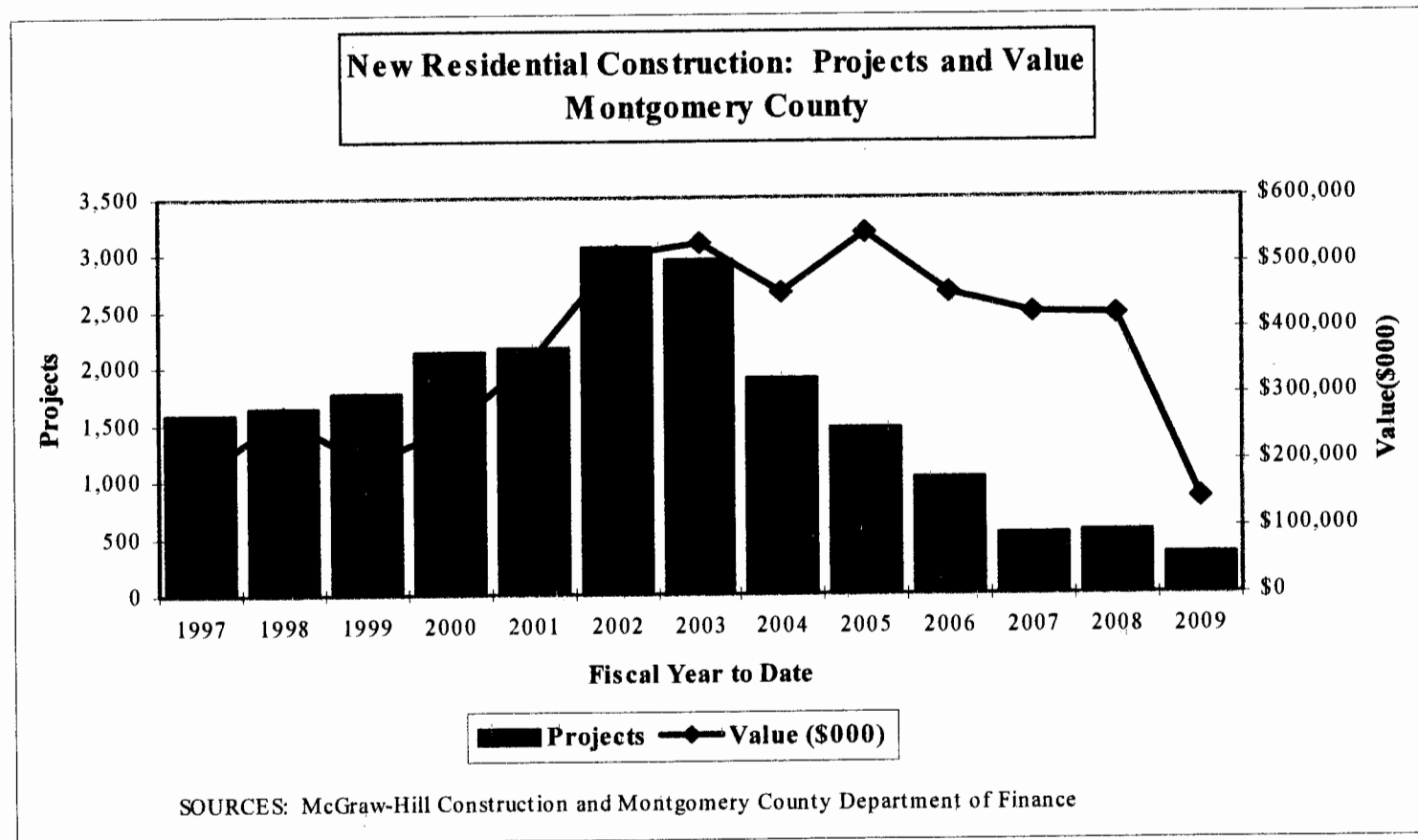
**Finance also estimates that the average sales price for an existing home could decline 12.8 percent in FY09 compared to increases of 2.0 percent in FY07 and 0.4 percent in FY08.**



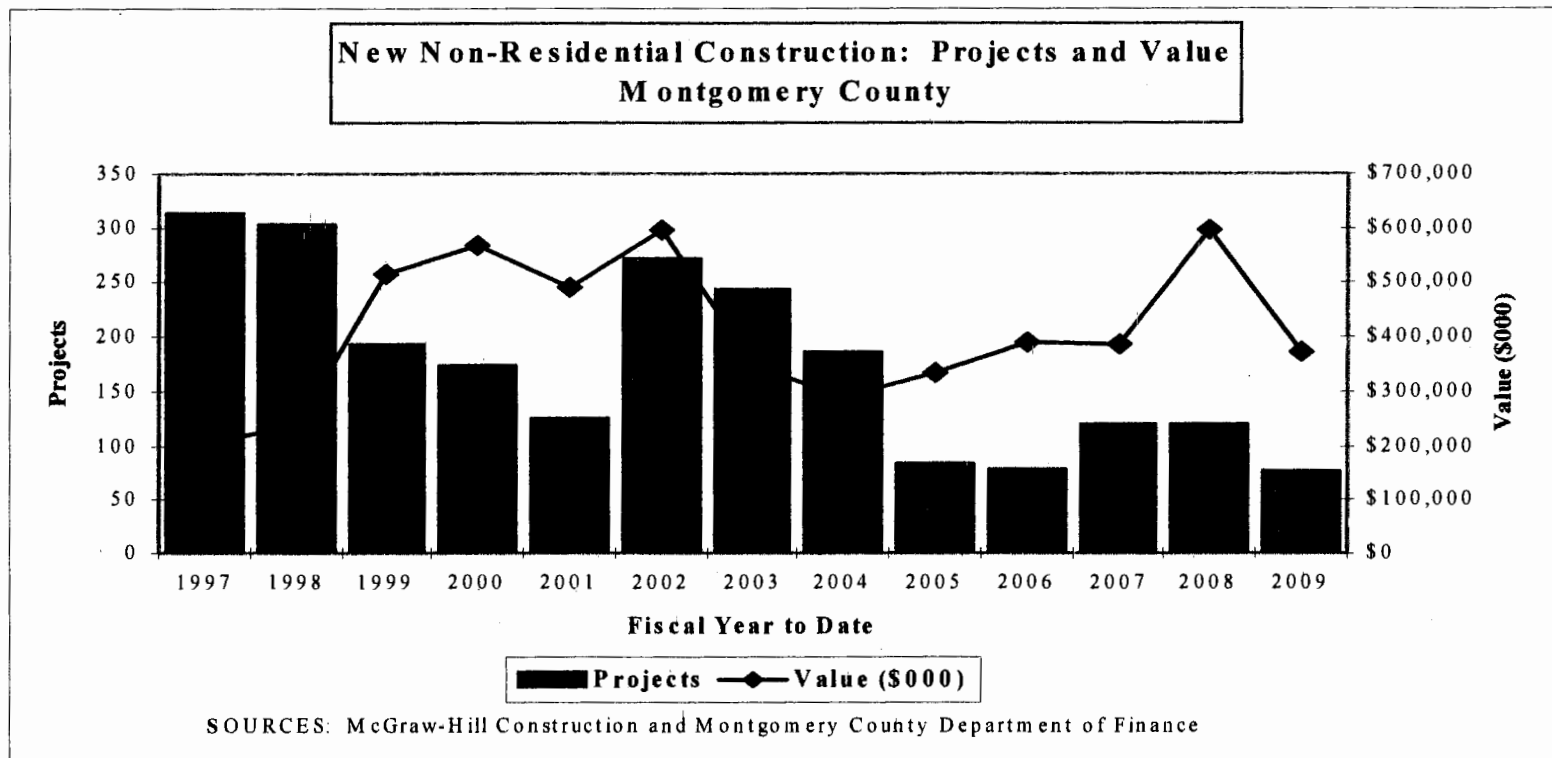
**Housing sales inventory in February declined from its recent peak in January from an eleven month supply to a nine-and-a-half month supply. However, there still remains a high inventory level of homes for sale.**



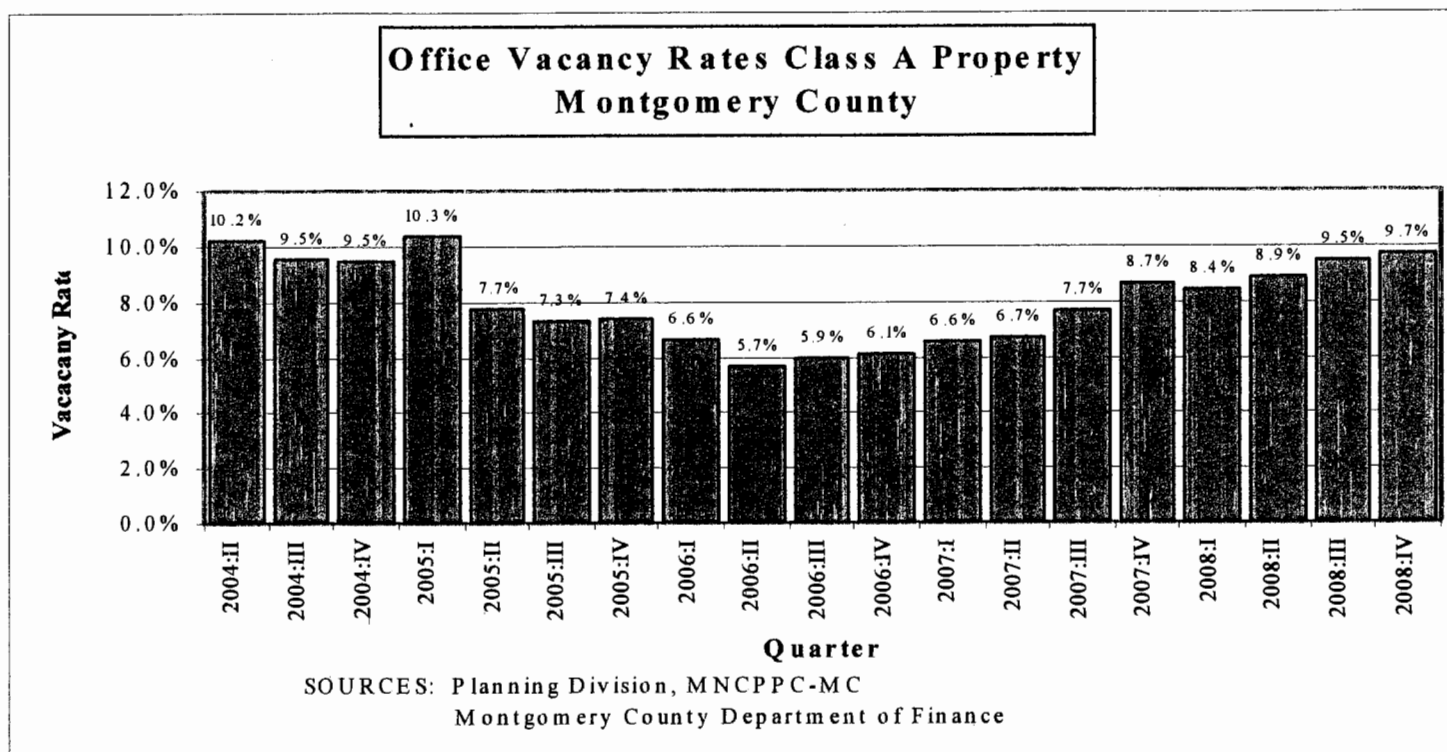
**Residential construction continued to decline so far this fiscal year. The number of projects declined from a high of nearly 3,100 during the same eight-month period in FY02 to approximately 350 projects this year. The value of new construction to date is the lowest over the past thirteen years.**



**The number of non-residential projects under construction (76) so far this fiscal year is the lowest compared to the same eight-month period in FY06 (78). The value of new construction (excluding 2 medical facilities) of \$373.3 million to date is the lowest since the same period in FY05.**



**The slowdown in non-residential construction can be attributed to an increase in the vacancy rate for Class A property in the County to its highest rate since the first quarter of 2005.**



## SUMMARY

- **Employment:**
  - The County's unemployment rate (4.6%) has risen nearly two percentage points (↑1.8 percentage points) over the past year and is at its highest level in over nineteen years.
  - The County's employment, as measured by the labor force series (household survey), decreased 0.4% in 2008.
- **Real Estate Market:**
  - Both the number of existing home sales (↓2.8%) and the average sales price of an existing home (↓12.8%) are expected to decline this fiscal year.
- **Construction:**
  - In terms of the number of projects and added value, new construction and non-residential have declined so far this fiscal year 2009.
- **State Board of Revenue Estimates Forecast (December):**
  - The State's BRE has downwardly adjusted its forecast of the State's economy in March compared to its previous forecast in December. Employment is projected to *decline* 2.6 % in 2009 (↓2.0% in December), total personal income is expected to increase a modest 1.1% (↑1.7% in December), and wage and salary income is projected to increase a very meager 0.5% (↑1.5% in December). Finally, capital gains are expected to decline 45.0% in tax year 2008 (same as in December) but another 30.0% in tax year 2009 (↓15.0% in December).




OFFICE OF THE COUNTY EXECUTIVE  
ROCKVILLE, MARYLAND 20850

Isiah Leggett  
County Executive

MEMORANDUM

September 4, 2008

TO: Michael J. Knapp, President  
Montgomery County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: FY09 Operating Budget Issues

Consistent with the requirements of paragraph 25 of County Council Resolution 16-577, I am providing you my response to the County Council's mandated \$8 million in reductions to the FY09 County Government Operating Budget and with an update on the results of the Retirement Incentive Program (RIP).

**Fiscal Challenges**

In order to be responsive to the Council's mandate that I specify additional reductions to the approved FY09 operating budget and assure our residents that the budget is balanced, a list of cuts equaling \$8 million is presented below. However, I strongly believe that because of our weak economy, an imbalance in the State budget, and a projected gap of over \$250 million in the County budget for FY10, we will be facing the need for additional cuts during this fiscal year. I anticipate forwarding to you a comprehensive savings plan within the next two months that very well will include some of the reductions recommended herein including furloughs. Therefore, I recommend we defer final action until that time when our current fiscal picture will be more focused.

As you are well aware, weak economic conditions, including a sustained recession in the local and national housing market, stagnant job growth, skyrocketing energy costs, and stock market declines are adversely affecting both the State's and the County's revenue estimates. A sampling of year to date (through June and July 2008) economic indicators for Montgomery County reinforces this perspective. For example, the leading economic indicators for the Washington Metropolitan area are down by 2.6%; inflation is up 5.7% (July '08 over July '07); resident employment growth is up only 0.4% during the first seven months of this year compared to the same period last year; the unemployment rate has increased from 3.0% in July '07 to 3.4% in July '08; the number of housing sales dropped by over 14% in July compared to July '07; and the median home price declined by nearly 17% during the same period.

The rising cost of fuel has caused the County Government, Schools, and Park and Planning to revise upward their FY09 projected fleet costs by nearly \$16.3 million. In addition, increased oil costs have caused the cost of asphalt to increase by an estimated \$2 million in the current fiscal year. Added to this, is the ongoing volatility in the equity markets. As of the third week in August, the Dow Jones Industrial Average (DJIA) was down 12.3% for the year and the S&P 500 was down 12.0%. While the revenue estimates within the FY09 budget were appropriately conservative, I am concerned that the continued weakness in the economy may cause a further decline in these estimates including our assumption of approximately \$12.6 million in transfer and recordation tax revenues from the recent approval of the "controlling interest" legislation. These continued fiscal constraints will present serious challenges in maintaining the current level of County services and will certainly prevent any substantive program improvements in FY10 without the introduction of new, non-tax supported resources such as the Emergency Medical Services Transport Fee.

Montgomery County is not alone in feeling the impact of the weak economy:

- Fairfax County, Virginia has recently announced it is projecting a \$450 million gap in FY10 due in large part to declining property tax assessments;
- The State of New York has recently been forced to reduce expenditures by \$1 billion to maintain a balanced budget;
- The State of Virginia is projecting a budget shortfall of over \$1 billion in the next fiscal year due to projected revenue declines;
- Several State of Georgia agencies are planning to furlough employees *each month* during the coming year to address significant budgetary shortfalls; and
- The State of Florida is forecasting a budget gap of \$1.5 billion due to reduced tax collections.

In Maryland, recent reports indicate that the State's projected FY10 gap may be as large as \$1 billion, partly attributed to lower estimates of income tax revenues.

### **\$8 Million Reductions**

In its approval of the FY09 Operating Budget, the County Council required up to \$8 million in cost reductions through "... reduced personnel costs...productivity improvements, and increased efficiencies in County government operations." Subject to additional information we will receive in the Fall on the economy and revenue estimates, these cost reductions will be achieved in the following manner:



RIP Savings in excess of target	\$	1.6	Tax Supported Savings only
Savings from MLS Pay Adjustments	\$	1.1	Pay for performance for MLS employees limited to lump sum pay increases of 1% if rated "Highly Successful" or 2% if rated "Exceptional". MLS employees received a 4.5% general wage adjustment, but are not eligible for a 3.5% service increment
Two Day Furlough	\$	5.9	
Total Savings	\$	8.6	

Given the economic volatility noted above and the potential for revenues to decline below current estimates I am withholding implementation of furloughs until the Fall when a more complete picture of our fiscal status will be available. At that time additional mid-year cost containment measures may be needed including additional furlough days and a mid-year savings plan.

#### **Retirement Incentive Program**

The Retirement Incentive Program (RIP) process has been completed and exceeded the savings goals that I established in recommending this program. The total participation in the program was 152 employees and a total of 54 positions were abolished from the positions that were vacated as part of the RIP. Details are contained on the attached chart, but the total savings achieved were approximately \$8.4 million for all funds and \$6.6 million for tax supported funds which exceeded the \$5 million target in tax supported savings that were assumed in the budget. These cost savings were achieved through position abolishments, turnover savings, and additional lapse, but excluded the cost of leave payouts made to retiring employees. As indicated in the chart above, the amount of savings over the \$5 million goal will be applied to the \$8 million savings target.

The loss of experienced employees through this program will create some difficulties for County Government departments in maintaining continuity and high standards of quality in providing services. To address this challenge we have worked extensively in planning the transition of senior employees and documenting their knowledge and experience of program operations and services. However, the RIP will produce significant long term savings, introduce new talent into the County workforce, and will support a more sustainable budget for years to come. The Office of Management and Budget will transfer the RIP savings identified on the attached chart for tax supported departments, from the Productivity Enhancements and Personnel Cost Savings Non-departmental Account into department's FY09 operating budget.

Michael J. Knapp, Council President

Page 4

In closing, I want to again emphasize that the current, unfavorable economic climate may force us to take additional actions in the current year to maintain a balanced budget and to create a sustainable budget for FY10. We will keep the County Council updated on the County's revenue collections as well as changes in local and regional economic indicators as that information becomes available.

#### Attachments

cc: Timothy L. Firestine, Chief Administrative Officer  
Executive Branch Department Heads  
Assistant Chief Administrative Officers  
Special Assistants to the County Executive  
Management Leadership Service  
Administrative Services Coordinators and Functioning Equivalents  
OMB Staff and Managers

## Retirement Incentive Program

### Abolished Position and Turnover/Lapse Savings by Department

#### Tax Supported Funds

Department	Abolished Position Savings	Turnover/ Lapse Savings	Annual Leave Payout Cost	Total Savings (Total Transfer from NDA)
Consumer Protection	\$0	-\$57,130	\$10,930	-\$46,200
Correction and Rehabilitation	\$0	-\$36,930	\$2,340	-\$34,590
County Attorney	\$0	-\$41,380	\$4,020	-\$37,360
County Council	-\$115,790	-\$36,810	\$36,940	-\$115,660
County Executive	\$0	-\$33,390	\$19,040	-\$14,350
Economic Development	\$0	-\$40,970	\$13,010	-\$27,960
Environmental Protection	-\$72,060	\$0	\$0	-\$72,060
Finance	-\$95,400	-\$65,140	\$26,970	-\$133,570
Fire and Rescue Services	-\$95,940	-\$49,630	\$27,510	-\$118,060
Health and Human Services	-\$654,220	-\$1,034,880	\$206,190	-\$1,482,910
Homeland Security	\$0	-\$43,800	\$11,750	-\$32,050
Housing and Comm. Affairs	-\$76,550	\$0	\$4,370	-\$72,180
Human Resources	\$0	-\$122,530	\$32,790	-\$89,740
Human Rights Commission	-\$93,320	-\$87,100	\$23,030	-\$157,390
Management and Budget	\$0	-\$44,260	\$11,900	-\$32,360
Mid-County RSC	-\$50,020	-\$49,700	\$16,970	-\$82,750
Police	-\$249,690	-\$445,730	\$97,180	-\$598,240
Public Libraries	-\$597,490	-\$607,570	\$131,150	-\$1,073,910
Recreation	-\$378,130	-\$321,170	\$116,150	-\$583,150
Sheriff	\$0	-\$16,380	\$710	-\$15,670
Technology Services	-\$167,170	-\$82,270	\$55,010	-\$194,430
Transit Services	-\$618,640	-\$294,590	\$83,470	-\$829,760
Transportation	-\$285,620	-\$624,440	\$159,510	-\$750,550
<b>Total Tax Supported</b>	<b>-\$3,550,040</b>	<b>-\$4,135,800</b>	<b>\$1,090,940</b>	<b>-\$6,594,900</b>

## Retirement Incentive Program

### Abolished Position and Turnover/Lapse Savings by Department

#### Non-Tax Supported Funds

Department	Abolished Position Savings	Turnover/ Lapse Savings	Annual Leave Payout Cost	Total Savings
Com. Use of Public Facilities	\$0	-\$44,700	\$10,810	-\$33,890
Environmental Protection	\$0	-\$54,350	\$14,320	-\$40,030
General Services	-\$266,300	\$0	\$20,250	-\$246,050
Health and Human Services	-\$180,560	-\$190,520	\$33,160	-\$337,920
Housing and Comm. Affairs	\$0	-\$51,620	\$4,460	-\$47,160
Liquor Control	-\$86,660	-\$442,970	\$80,710	-\$448,920
Permitting Services	\$0	-\$342,310	\$37,790	-\$304,520
Sheriff	\$0	-\$26,970	\$1,170	-\$25,800
Solid Waste	\$0	-\$55,710	\$17,230	-\$38,480
Transportation	-\$190,560	-\$121,290	\$103,710	-\$208,140
<b>Total Non-Tax Supported*</b>	<b>-\$724,090</b>	<b>-\$1,330,440</b>	<b>\$323,610</b>	<b>-\$1,730,910</b>
 <b>Total All Funds</b>	 <b>-\$4,274,130</b>	 <b>-\$5,466,240</b>	 <b>\$1,414,550</b>	 <b>-\$8,325,810</b>

\* Savings for non-tax supported funds will not result in a reduction to the F09 appropriation, but will be reflected, in part, in the FY10 MARC.



OFFICE OF THE COUNTY EXECUTIVE  
ROCKVILLE, MARYLAND 20850

Isiah Leggett  
County Executive

MEMORANDUM

November 13, 2008

TO: Michael J. Knapp, Council President

FROM: Isiah Leggett, County Executive

SUBJECT: FY09 Savings Plan

Attached please find my Recommended FY09 Savings Plan for Montgomery County Government, as well as the other tax supported County Agencies. The attached plan identifies savings of nearly \$50 million from the current year that will be applied to close the projected gap of over \$250 million in FY10. We have worked to identify savings that could be realized without severely impacting direct services, especially to public safety and our most vulnerable residents. However, some service reductions are unavoidably included in the attached proposed plan.

As in the past, the Council may not be supportive of some of my proposed reductions. If the Council insists on not supporting the attached proposed reductions, I strongly recommend that it propose offsetting reductions in other areas of the budget to maintain the total amount of savings that can be used to close the projected FY10 budget gap. Deferring needed savings at this time will only temporarily postpone the urgent need to make difficult choices in the future. In fact, the less time in which agencies have to make the necessary reductions, the deeper and more difficult those reductions will need to be to achieve the same savings. Resolution of the budget gap is problematic because even more difficult and complex issues will need to be addressed during the Council's short time for reviewing and approving the annual budget. And as I have made clear, I do not support and will not recommend exceeding the charter limit on property taxes in the FY10 operating budget.

Because of the very serious nature of the current economy, I urge the Council to quickly approve the reductions proposed in the attached Savings Plan. The projected gap for FY10 may significantly worsen in the near future because of continued volatility in the financial markets and the very real potential for further and substantive reductions in State Aid. We have already absorbed cuts of over \$21 million in State Aid losses between FY09 and FY10 and we understand that further reductions are planned for this fiscal year. Under these circumstances, it is quite likely that further current year spending reductions will be necessary.

The attached plan includes proposed targets for Montgomery County Public Schools (MCPS), the Maryland-National Capital Park and Planning Commission (M-NCPPC), the Housing Opportunities Commission (HOC), and Montgomery College (the College). My staff have been in contact with the fiscal teams of each of these agencies and discussed feasible and attainable spending

Michael J. Knapp, Council President  
November 13, 2008  
Page 2

reduction targets. However, with the exception of HOC, we have not received a specific spending reduction plan from any agency that has been approved by the appropriate governing body.

I recommend a savings target of 1% for MCPS which would produce savings of approximately \$19.4 million. As the chart below indicates, the MCPS operating budget accounts for nearly 55% of the tax supported budget, but a 1% target would contribute a little over 39% to the total savings plan target. The percentage reduction for the other agencies is significantly higher.

As you know, we are actively engaged in discussions with our employee representatives on economic terms of the existing labor contracts. Even assuming these talks have a successful outcome and that the Council approves the proposed savings plan of \$50 million, we still have a sizeable gap remaining for FY10. In addition, failure to approve the Emergency Medical Services Transport Fee will necessitate further reductions to other vital programs and services to maintain fire and rescue services.

I strongly urge the Council to expedite its review and approval of the attached Savings Plan, so that the necessary actions can be implemented as soon as possible. My staff is available to assist the Council in its review of the attached proposal. Thank you for your support of our efforts to preserve our most important services while preserving the fiscal health of the County Government.

#### **Executive Recommended FY09 Savings Plan**

	<b>Tax Supported Approved FY09 Budget</b>	<b>Executive Recommended Savings Plan Target</b>	<b>Agency as % of Total Budget</b>	<b>Target as % of Total Savings Plan'</b>	<b>Savings Plan Target as % of Budget</b>
MCG	1,279,432,930	24,747,160	36.2%	50.3%	1.93%
MNCPPC	106,424,200	2,479,340	3.0%	5.0%	2.33%
MCPS	1,936,956,571	19,369,566	54.8%	39.3%	1.00%
College	212,357,803	2,636,364	6.0%	5.4%	1.24%
<b>Total</b>	<b>3,535,171,504</b>	<b>49,232,430</b>			<b>1.39%</b>

#### **Notes:**

- 1 Amounts above excludes Debt Service
- 2 For MCPS, The Executive Recommends a target of 1% of the MCPS appropriation or \$19.4 million.
- 3 The College and MNCPPC have not formally committed to an FY09 savings plan or specified how those reductions may be achieved.
- 4 The College has indicated that a savings plan target of 2% of Local Contribution or \$2 million is appropriate in light of recent State Aid reductions approved by the Board of Public Works in October 2008.

Michael J. Knapp, Council President

November 13, 2008

Page 3

IL:jfb

c: Timothy L. Firestine, Chief Administrative Officer  
Jennifer Barrett, Director, Department of Finance  
Joseph F. Beach, Director, Office of Management and Budget  
Dr. Jerry Weast, Superintendent, Montgomery County Public Schools  
Dr. Brian Johnson, President, Montgomery College  
Royce Hanson, Chair, Montgomery County Planning Board  
Michael J. Kator, Chair, Housing Opportunities Commission

Attachments

# FY09 SAVINGS PLAN ANALYSIS

Fund/Department Name	FY09 Approved	Recommended	Recommended	Savings as a
	(per Council Resolution 16-577)	Total \$	Revenue	percent of Original FY09 Budget
<b>Tax Supported</b>				
<b>General Fund</b>				
Board of Appeals	619,300	-15,480	0	-2.5%
Circuit Court	10,747,630	-268,690	0	-2.5%
Commission for Women	1,317,430	-32,940	0	-2.5%
Consumer Protection	2,708,490	-66,560	0	-2.5%
Correction and Rehabilitation	65,602,820	-655,700	0	-1.0%
County Attorney	5,680,860	-147,960	0	-2.6%
County Council	9,580,700	-237,000	0	-2.5%
County Executive	6,979,440	-174,500	0	-2.5%
Economic Development	8,048,580	-182,660	0	-2.3%
Emergency Management and Homeland Security	1,653,690	-16,220	0	-1.0%
Environmental Protection	4,401,540	-108,240	0	-2.5%
Finance	10,727,300	-264,840	0	-2.5%
General Services	28,321,280	-708,030	0	-2.5%
Health and Human Services	201,256,130	-3,195,250	-195,250	-1.5%
Housing and Community Affairs	5,634,370	-139,050	0	-2.5%
Human Resources	9,522,970	-262,970	0	-2.8%
Human Rights	2,501,500	-61,600	0	-2.5%
Inspector General	700,720	-17,520	0	-2.5%
Intergovernmental Relations	882,770	-22,070	0	-2.5%
Legislative Oversight	1,370,300	-27,400	0	-2.0%
Management and Budget	4,067,640	-100,880	0	-2.5%
NDA - Compensation and Employee Benefits Adjustment	3,070,590	-809,420	0	-26.4%
NDA - Desktop Modernization	7,136,360	-178,410	0	-2.5%
NDA - Housing Opportunities Commission	6,140,640	-153,520	0	-2.5%
NDA - Leases	18,455,210	-461,380	0	-2.5%
NDA - Working Families Income Supplement	13,667,700	-3,832,300	0	-28.0%
Police	240,313,050	-2,397,300	0	-1.0%
Public Information	1,308,720	-32,720	0	-2.5%
Public Libraries	40,255,530	-979,820	0	-2.4%
Regional Services Centers	4,494,100	-110,910	0	-2.5%
Sheriff	20,533,520	-205,180	0	-1.0%
State's Attorney	12,595,950	-125,960	0	-1.0%
Technology Services	33,711,050	-837,920	0	-2.5%
Transportation	48,747,040	-1,195,150	0	-2.5%
Zoning & Administrative Hearings	551,910	-13,800	0	-2.5%
<b>General Fund Total:</b>	<b>833,306,830</b>	<b>-18,039,350</b>	<b>-195,250</b>	<b>-2.1%</b>
<b>Special Funds</b>				
<u>Urban District - Silver Spring</u>				
Urban Districts	2,890,770	-72,270	0	-2.5%
<u>Urban District - Wheaton</u>				
Urban Districts	1,660,480	-41,510	0	-2.5%



# FY09 SAVINGS PLAN ANALYSIS

Fund/Department Name	FY09 Approved (per Council Resolution 16-577)	Recommended Total \$	Recommended Revenue	Savings as a percent of Original FY09 Budget
<u>Mass Transit</u>				
DOT-Transit Services	113,259,360	-1,438,000	-29,350	-1.2%
<u>Fire</u>				
Fire and Rescue Service	191,054,930	-1,909,370	0	-1.0%
<u>Recreation</u>				
Recreation	32,457,220	-796,850	0	-2.5%
Special Funds Total:	341,322,760	-4,258,000	-29,350	-1.2%
MCG Tax Supported Total:	1,174,629,590	-22,297,350	-224,600	-1.9%
<b>Non-Tax Supported</b>				
<b>Enterprise Fund</b>				
<u>Liquor Control</u>				
Liquor Control	39,228,000	-969,480	0	-2.5%
MCG Non-Tax Supported Total:	39,228,000	-969,480	0	-2.5%
<b>Internal Service Funds</b>				
<b>Internal Service Funds</b>				
<u>Printing &amp; Mail</u>				
General Services	6,583,470	-162,650	0	-2.5%
<u>Motor Pool</u>				
DGS-Fleet Management Services	67,674,780	-1,351,240	0	-2.0%
MCG Internal Service Funds Total:	74,258,250	-1,513,890	0	-2.0%
Montgomery County Government:	1,288,115,840	-24,780,720	-224,600	-1.9%
Montgomery County Public Schools:	1,936,956,571	-19,369,570	0	-1.0%
Montgomery College:	211,607,803	-2,636,364	0	-1.2%
Maryland-National Capital Park and Planning Commi	106,424,200	-2,479,340	0	-2.3%
<b>TOTAL ALL AGENCIES</b>	<b>3,543,104,414</b>	<b>-49,265,994</b>	<b>-224,600</b>	<b>-1.4%</b>

Resolution No: 16-780  
Introduced: November 25, 2008  
Adopted: November 25, 2008

COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

Subject: Approval of the FY2009 budget savings plans for County Government, Montgomery County Public Schools, Montgomery College, and the Maryland-National Capital Park and Planning Commission

Background

1. On May 22, 2008 the Council approved the FY2009 operating budget for the County Government in Resolution No. 16-577. Action clause 49 stated that: "As a condition of spending any funds appropriated in this resolution and not disapproved or reduced under Charter Section 306, the Executive must transmit to the Council any recommended budget savings plan or similar action.... Any budget savings plan or similar action is subject to review and approval by the Council...."
2. In a memorandum to the Council President dated November 13, 2008, the Executive proposed the following savings for the remainder of FY2009 to help eliminate a large projected operating budget gap in FY2010:

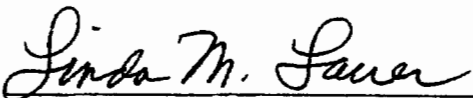
Agency	Proposed Savings
County Government	\$24,780,720
MCPS	19,369,570
Montgomery College	2,636,364
M-NCPPC	2,479,340
Total	\$49,265,994

3. On November 20 and 24, 2008 the Council's Committees reviewed the proposed savings.

Action

1. The County Council for Montgomery County, Maryland approves the FY2009 budget savings plans as outlined in pages 2 and 3 and in the attached documents.

This is a correct copy of Council action.

  
Linda M. Lauer, Clerk of the Council

## FY09 Budget Savings Plan

Compared to the Executive's proposed plan:

Positive amounts are expenditure reductions (budget savings)

Negative amounts are expenditure increases (not budget savings)

### I. The Executive proposed the following savings:

Dollars

County Government	24,780,720
MCPS	19,369,570
Montgomery College	2,636,364
MNCPPC	2,479,340
Total	49,265,994

### IIA. The Council did not approve the following savings the Executive proposed for County Government:

<b>Health and Human Services</b>	
Do not reduce the supplement to service providers for services for the developmentally disabled	(175,000)
<b>Fire and Rescue Service (do not make the first 5 reductions)</b>	
S1 – Ambulance 717 (Laytonsville) from 24/7 to 10/5	(217,500)
S2 – Ambulance 709 (Hyattstown) from 24/7 to 10/5	(217,500)
S3 – Ambulance 711 (Glen Echo) from 24/7 to 10/5	(217,500)
S4 – Ambulance 719 (Silver Spring) Flex Unit (Overtime)	(87,000)
S7 – Destaff rescue squad 729 (Germantown); move 1 person to Tower 729	(300,000)
S5 – Restore partial funding for LFRD Administrative Personnel	(57,500)
<b>Recreation</b>	
Do not reduce hours at senior centers	(1,420)
<b>Transportation, Mass Transit</b>	
Do not reduce pavement markings	(50,000)
Reduce mid-day frequency on Ride-On route 63 rather than deleting mid-day service entirely (\$20,240 additional spending and \$1,490 additional fare revenue)	(18,750)
<b>Total savings the Council did not approve for County Government</b>	<b>(1,342,170)</b>
<b>IIB. The Council approved additional savings for County Government:</b>	
<b>Technology Services</b>	
Delay the hiring of 5 more vacant positions, for additional savings	270,000
Additional reduction to contractual consulting support costs	250,000

<b>NDA for Desktop Computer Modernization</b>	
Delay the purchase of 500 personal computers	650,000
<b>Fire and Rescue Service</b>	
Reduce two 24/7 EMS Duty Officer slots, discontinuing one in December and one in January.	650,000
<b>General Services</b>	
Defer additional administrative vehicle replacement until FY10	148,300
<b>Total additional savings the Council approved for County Government</b>	<b>1,968,300</b>
<b>Net savings the Council approved for County Government</b>	
	<b>25,406,850</b>
<b>III. MCPS</b>	
Executive's proposed reductions	19,369,570
Executive's proposed reductions that the Council did not approve	(16,369,570)
Savings the Council approved	3,000,000
<b>IV. Montgomery College</b>	
Executive's proposed reductions	2,636,364
Executive's proposed reductions that the Council did not approve	(527,273)
Savings the Council approved	2,109,091
<b>V. MNCPPC</b>	
Executive's proposed reductions	2,479,340
Executive's proposed reductions that the Council did not approve	0
Savings the Council approved	2,479,340
<b>VI. The Council approved the following savings:</b>	
County Government	25,406,850
MCPS	3,000,000
Montgomery College	2,109,091
MNCPPC	2,479,340
<b>Total savings the Council approved</b>	<b>32,995,281</b>



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett  
County Executive

Joseph F. Beach  
Director

MEMORANDUM

December 1, 2008

TO: Michael J. Knapp, President  
Montgomery County Council

FROM: Joseph F. Beach, Director  
Office of Management and Budget

SUBJECT: Fiscal Plan Update

Attached please find the updated fiscal plan and supporting documents. As the attached documents indicate the projected gap for FY10 is now estimated at over \$515 million before implementation of the FY09 savings plan. The various assumptions underlying this forecast are discussed below, and include the most recent revenue estimates prepared by the Department of Finance. A projected gap of this magnitude at this point in the budget cycle presents the County with significant challenges and many difficult choices. We are considering a variety of spending reduction solutions at this point, but we consider *all* services to be under consideration for significant reductions at this point. Please note the following concerning certain assumptions and issues in the fiscal plan:

1. **Revenues:** The latest revenue projections from the Department of Finance for tax revenues and investment income. All taxes are projected at current rates with the exception of property taxes which is assumed to be at the charter limit through a rate cut.
2. **State Aid:** State Aid is projected at current formulas for FY09 and FY10 except in those cases where the Board of Public Works has approved reductions. However, we understand that the Governor will take a new round of FY09 reductions to the Board of Public Works in January. In addition, the Governor's FY10 Operating Budget will be published in January 2009 and will, in all likelihood, include significant reductions to local aid. In addition, MCPS is projecting State Aid for Education to increase by approximately \$10 million based on existing formulas. However, given the current economic environment and the budget outlook for the State we have only assumed an increase based on the consumer price index.
3. **FY10 Expenditures:** The FY10 projection of Agency Expenditures is based on a same services estimate of next year's expenditures. The specific major known commitments

Office of the Director

101 Monroe Street, 14th Floor • Rockville, Maryland 20850 • 240-777-2800

[www.montgomerycountymd.gov](http://www.montgomerycountymd.gov)

Michael J. Knapp, President

December 1, 2008

Page 2

that are included in the same services estimate are attached and result in an anticipated increase in the budget of approximately 8%. While the Executive will not recommend an operating budget at same services, this approach is used to indicate the level of existing personnel cost and programmatic commitments that exist in the budget. The commitments include the cost of labor contracts, benefit cost increases, Retiree Health Insurance, the operating cost of new capital facilities, inflationary escalation in existing service contracts, annualization of approved positions, and other programmatic costs. The FY10 budget cannot be balanced, in the absence of dramatic tax increases, without many of these costs being eliminated or significantly reduced.

4. **Fund Balance:** The FY09 ending/FY10 beginning undesignated fund balance for the tax supported funds (excluding proprietary funds and grants) is shown in a negative position (line 3 of the fiscal plan summary). The reserves are shown in a deficit position because the impact of the savings plan is shown separately in the fiscal plan (line 18). When the FY09 savings are integrated into the FY09 estimates of agency spending the beginning undesignated fund balance is a positive \$31.3 million. This is nearly \$77 million *less* than the \$108 million reserve the Council targeted when it approved the FY09 budget.

As you know, the tax supported reserves shown in the fiscal plan is a combination of all of the tax supported funds of all of the agencies. We are analyzing the fund by fund impact of the revenue losses to determine which funds may end FY09 in a negative position.

5. **Savings Plan:** The projected gap is displayed in such a way to breakout the impact of the Council's recently completed actions on the FY09 Savings Plan as well as other changes in this projection of the gap.
6. **Supplemental Appropriations:** Certain previously anticipated supplemental appropriations have been eliminated most notably additional fuel costs for the County Government and other agencies based on the latest estimates for fuel prices. The removal of these supplemental appropriations assumes that there is not another sharp price increase for the balance of FY09.

cc: Timothy L. Firestine, Chief Administrative Officer  
Stephen B. Farber, Council Staff Director  
Jennifer Barrett, Director, Department of Finance  
Kathleen Boucher, Assistant Chief Administrative Officer

# Fiscal Plan Update

## December 2008

### Tax Supported Fiscal Plan Summary

(\$ in Millions)					
	App. FY09 5-22-08	Est. FY09 12-02-08	% Chg. FY09-10 Rec/Bud	% Chg. FY09-10 Rec/Est	Rec. FY10 12-02-08
<b>Total Resources</b>					
Revenues	3,776.3	3,669.9	-0.4%	2.5%	3,760.7
Beginning Reserves Undesignated	142.9	156.3	-115.8%	-114.5%	(22.6)
Beginning Reserves Designated	6.2	6.7	5.2%	-2.3%	6.6
Net Transfers In (Out)	33.3	33.3	-20.1%	-20.1%	26.6
<b>Total Resources Available</b>	<b>3,958.8</b>	<b>3,866.2</b>	<b>-4.7%</b>	<b>-2.5%</b>	<b>3,771.2</b>
<b>Less Other Uses of Resources (Capital, Debt Service, Reserve)</b>	<b>423.6</b>	<b>330.8</b>	<b>12.0%</b>	<b>43.4%</b>	<b>474.3</b>
<b>Available to Allocate to Agencies</b>	<b>3,535.2</b>	<b>3,535.4</b>	<b>-6.7%</b>	<b>-6.7%</b>	<b>3,296.9</b>
<b>Agency Uses</b>					
Montgomery County Public Schools (MCPS)	1,937.0	1,937.0	8.8%	8.8%	2,106.8
Montgomery College (MC)	212.4	212.4	8.9%	8.9%	231.2
MNCPPC (w/o Debt Service)	106.4	106.4	7.3%	7.3%	114.2
MCG	1,279.4	1,279.7	6.3%	6.3%	1,360.3
<b>Subtotal Agency Uses</b>	<b>3,535.2</b>	<b>3,535.4</b>	<b>7.8%</b>	<b>7.8%</b>	<b>3,812.6</b>
<b>Subtotal Other Uses of Resources (Capital, Debt Service, Reserve)</b>	<b>423.6</b>	<b>330.8</b>	<b>12.0%</b>	<b>43.4%</b>	<b>474.3</b>
<b>Total Uses</b>	<b>3,958.8</b>	<b>3,866.2</b>	<b>8.3%</b>	<b>10.9%</b>	<b>4,286.9</b>
<b>Tier 1</b>					
<b>(Gap)/Available</b>	<b>-</b>	<b>-</b>			<b>(515.7)</b>
<b>Tier 2</b>					
FY09 Savings Plan - All Agencies					32.5
Decrease FY09 Potential Supplementals					21.1
Decrease FY10 Agency Spending - Fuel Costs					16.3
Further State Aid Cuts					TBD
Adjust Reserves					(3.2)
<b>(Gaps)/Available</b>					<b>(448.9)</b>

**Notes:**

1. FY09 Estimate reflects preliminary unaudited beginning fund balance.
2. Projected FY10 Agency Uses assume same services rate of growth.
3. FY10 property tax revenues are assumed at the Charter Limit.

## Reconciliation of the Gap from September to December 2008

Gap on September 17, 2008	\$ (251.167)
Revenue Update (FY09 and FY10)	(203.382)
Income Tax	(133.280)
Property Tax	(2.272)
Transfer and Recordation Tax	(46.038)
Fuel/Energy Tax	(2.610)
Telephone Tax	1.820
Admissions Tax	(0.360)
Hotel/Motel Tax	0.460
Investment Income	(21.102)
State Aid (FY09 and FY10)	(13.739)
Highway User Revenue (\$7.764 million reduction assumed in Sept.)	
Mass Transit	(10.180)
Police Protection	(0.224)
Health Services	(0.421)
Montgomery College	(1.446)
State Prisoner Reimbursement	(1.467)
FY08 Year-End Closing	
Update to beginning FY09 undesignated reserve	12.900
Update to beginning FY09 designated reserve (LTA)	0.480
Other Adjustments	
Changes to FY10 revenues due to updated assumptions (CPI, population)	1.785
Rate of Growth Assumption -- Same Services	
MCG -- 6.3%	3.115
MCPS -- 8.8%	(69.450)
Montgomery College -- 8.9%	(7.092)
MNCPPC -- 7.3%	(1.225)
Net Effect on Reserves of Resource Changes	12.117
Gap on December 2, 2008	\$ (515.658)



Changes to FY09 Supplemental Appropriations (Pending and Approved)	21.113
FRS - Electronic Patient Care Reporting (ePCR)	1.017
DOT - Asphalt Cost Increases	0.817
MCG - Fuel Costs	9.598
MCPS - Fuel Costs	5.948
MNCPPC - Fuel Costs	0.737
MCG - Loving Charity Hall	0.150
MCG - IJIS Current Revenue	2.500
Police COPS Grant Match	0.347
FY09 Savings Plan -- Council Approved	32.540
County Government -- expenditure reductions	24.436
County Government -- net revenue changes	0.746
County Government -- FY10 impact on revenues of savings plan	(0.231)
MCPS	3.000
Montgomery College	2.109
MNCPPC	2.479
FY10 Agency Spending -- Remove Fuel Cost Assumption	16.283
County Government	9.598
MCPS	5.948
MNCPPC	0.737
Net Effect on Reserves of Resource Changes	(3.219)
Gap Assuming Measures Taken Since September 2008	\$ (448.942)

	A	B	C	D	E	F	G
1	Major Known Commitments by Agency						
2							
3			<u>MCPS</u>	<u>MCG</u>	<u>College</u>	<u>MNCPPC</u>	<u>Total</u>
4	FY09 Appropriation	1,936,956,571	1,279,432,930	212,357,803	106,424,200	3,535,171,504	
5	FY10 Compensation:						
6	General wage adjustment	0	0	0	0	0	0
7	Steps/service increments	0	0	0	0	0	0
8	Projected benefit cost increases	14,000,000	8,928,480	2,263,813		25,192,293	
9	Retiree health insurance pre-funding	11,700,000	12,300,000	500,000	1,110,000	25,610,000	
10	Other projected bargaining costs			1,299,145		1,299,145	
11	Elimination of one-time items		(10,970,820)		(366,200)	(11,337,020)	
12	Cost increase due to enrollment	16,500,000		1,673,618		18,173,618	
13	Operating impact of new facilities	1,536,000	2,134,580	2,001,981	300,000	5,972,561	
14	Annualizations			536,677	1,115,675	1,652,352	
15	Annualization of FY09 compensation		3,081,140			3,081,140	
16	Other position annualizations		105,650			105,650	
17	Fire Rescue (W Germ EMS, 4-person)		578,000			578,000	
18	Wisconsin Place		339,500			339,500	
19	Programmatic set-asides						
20	AHC and Community Grants		4,309,050			4,309,050	
21	Other NDA adj (leases, WFIS)		2,673,640			2,673,640	
22	Election cycle changes		(1,918,450)			(1,918,450)	
23	Fire Rescue apparatus cost increase		612,000			612,000	
24	AFF/MCVFRA bargaining costs		838,040			838,040	
25	Optical scan voting equipment		603,900			603,900	
26	Police COPS grant match		1,025,050			1,025,050	
27	Disparity study		500,000			500,000	
28	Fire Rescue fuel/utilities		1,000,000			1,000,000	
29	Pollution prevention		573,500			573,500	
30	HHS programs		1,706,395			1,706,395	
31	Recreation potential operating/utilities		1,246,900			1,246,900	
32	Technology programs (ERP, IJIS, etc.)		1,424,770			1,424,770	
33	DOCR inflationary costs		426,880			426,880	
34	Transit increased costs		343,910			343,910	
35	Other potential OBl's (SS Civic Bldg)		1,386,090			1,386,090	
36	Other programmatic set-asides		2,210,470			2,210,470	
37	Other department adjustments		2,431,510			2,431,510	
38	Inflation:						
39	Energy/utility costs	7,531,000	4,275,370	607,112	496,000	12,909,482	
40	Fuel/rate increases	5,948,000	12,000,000		737,000	18,685,000	
41	Contracts		3,836,340			3,836,340	
42	Instructional materials	1,802,000				1,802,000	
43	Nonpublic placements	2,936,000				2,936,000	
44	Other			750,000		750,000	
45	Other inescapable cost increases:						
46	Self-insurance, workers compensation	424,000	4,057,910	25,000		4,506,910	
47	Maintenance, transportation, etc.	6,292,000				6,292,000	
48	Replace Productivity Enhancements NDA funding		13,000,000			13,000,000	
49	RIP continuing savings		(5,808,920)			(5,808,920)	
50	Target Reductions		(22,764,620)			(22,764,620)	
51		58,669,000	46,486,265	9,657,346	3,392,475	128,205,086	
52							
53	Total	2,005,625,571	1,325,919,195	222,015,149	109,816,675	3,663,376,590	
54	Percent increase	3.5%	3.6%	4.5%	3.2%	3.6%	
55							
56	Footnotes:						
57	1. Outside agency major known commitments are from each agency's submission to OMB; see September 9 fiscal briefing packet.						
58	2. Estimates for retiree health insurance pre-funding and fuel costs are consistent with those included in OMB's fiscal plan (not the						
59	agencies' submissions).						
60	General Wage Adjustment	84,775,000	28,847,580	6,984,015	2,682,200	123,288,795	
61	Service Increment/Steps	16,445,000	5,534,120	2,194,775	1,745,000	25,918,895	
62							
63	Total with FY10 Compensation	2,106,845,571	1,360,300,895	231,193,939	114,243,875	3,812,584,280	
64	Percent Increase	8.8%	5.3%	8.9%	7.3%	7.8%	

NOVEMBER REVENUE UPDATE FY08 - 10

	FY08 Budget	FY08 May Est (FY09 Budget)	FY08 Prel. (Sept)	Difference	Nov 2008 Update	Sept - Nov Difference
Income	\$1,286,988	\$1,285,000	\$1,291,340	\$6,340	\$1,291,340	\$0,000
Property	\$1,207,500	\$1,209,530	\$1,213,400	\$3,870	\$1,215,229	\$1,829
Transfer/Recordation (1)	\$193,300	\$133,500	\$135,039	\$1,539	\$135,039	\$0,000
Other Taxes (2)	\$171,100	\$169,900	\$168,700	(\$1,200)	\$168,733	\$0,033
Investment Income	\$31,874	\$25,599	\$25,599	\$0,000	\$24,188	(\$1,411)
Highway User Revenue	\$38,749	\$38,330	\$38,330	\$0,000	\$36,651	(\$1,679)

	FY09 Budget	FY09 Prel. (Sept)	Budget - Sept Difference	Nov 2008 Update	Sept - Nov Difference
Income	\$1,325,440	\$1,316,370	(\$9,070)	\$1,273,790	(\$42,580)
Property	\$1,364,932	\$1,364,932	\$0,000	\$1,364,541	(\$0,391)
Transfer/Recordation (1)	\$148,985	\$132,200	(\$16,785)	\$113,511	(\$18,689)
Other Taxes (2)	\$185,800	\$185,800	\$0,000	\$185,110	(\$0,690)
Investment Income	\$14,727	\$15,787	\$1,060	\$7,880	(\$7,907)
Highway User Revenue	\$39,672	\$35,739	(\$3,933)	\$35,739	\$0,000

	FY10 Estimate	FY10 Prel. (Sept)	Budget - Sept Difference	Nov 2008 Update	Sept - Nov Difference
Income	\$1,404,890	\$1,355,690	(\$49,200)	\$1,265,030	(\$90,660)
Property (3)	\$1,406,057	\$1,429,416	\$23,359	\$1,427,535	(\$1,881)
Transfer/Recordation (1)	\$156,764	\$150,900	(\$5,864)	\$123,551	(\$27,349)
Other Taxes (2)	\$190,110	\$190,110	n/a	\$189,950	(\$0,160)
Investment Income	\$23,925	\$21,385	(\$2,540)	\$8,190	(\$13,195)
Highway User Revenue	\$40,170	\$36,339	(\$3,831)	\$36,339	\$0,000

NOTES: September Update was based on economic information through August, and no actual distributions

(1) General fund only and includes controlling interest

(2) Other taxes include admissions/amusement, fuel/energy, telephone, and hotel/motel taxes

(3) Tax-supported at the Charter Limit via rate cut

**REVENUE SUMMARY**  
**TAX SUPPORTED BUDGETS**  
(\$ Millions)

A KEY REVENUE CATEGORIES	B App. FY09	C Estimate FY09	D % Chg. FY09-10	E % Chg. FY09-10	F Rec FY10	G % Chg. FY10-11	H Projected FY11	I % Chg. FY11-12	J Projected FY12	K % Chg. FY12-13	L Projected FY13	M % Chg. FY13-14	N Projected FY14
<b>TAXES</b>	5-22-08	12-02-08	Rec/Bud	Rec/Est	12-02-08								
1 Property Tax (less PDs)	1,364.9	1,364.5	4.6%	4.6%	1,427.5	4.7%	1,494.5	3.8%	1,551.3	3.3%	1,602.5	3.2%	1,654.2
2 Income Tax	1,325.4	1,273.8	-4.6%	-0.7%	1,265.0	7.2%	1,356.2	7.3%	1,455.0	7.6%	1,566.1	7.0%	1,675.8
3 Transfer Tax	80.9	61.2	-16.9%	9.9%	67.2	5.2%	70.7	5.9%	74.9	7.8%	80.8	7.2%	86.6
4 Recordation Tax	68.1	52.3	-17.3%	7.7%	56.3	4.0%	58.6	4.6%	61.3	6.2%	65.1	5.8%	68.9
5 Energy Tax	132.7	131.5	1.0%	2.0%	134.1	2.3%	137.1	1.9%	139.7	1.9%	142.4	1.9%	145.1
6 Telephone Tax	30.9	31.6	6.5%	4.0%	32.8	2.9%	33.8	2.4%	34.6	1.5%	35.1	1.8%	35.7
7 Hotel/Motel Tax	19.9	19.9	4.9%	4.9%	20.9	6.1%	22.1	6.1%	23.5	5.2%	24.7	5.1%	26.0
8 Admissions Tax	2.4	2.2	-6.8%	-0.5%	2.2	-0.5%	2.2	-0.5%	2.2	-0.5%	2.2	-0.5%	2.2
9 Total Local Taxes	3,025.1	2,937.0	-0.6%	2.4%	3,006.1	5.6%	3,175.2	5.3%	3,342.4	5.3%	3,518.9	5.0%	3,694.5
<b>INTERGOVERNMENTAL AID</b>													
10 Highway User	39.7	35.7	-8.4%	1.7%	36.3	1.0%	36.7	1.0%	37.1	1.0%	37.4	1.0%	37.8
11 Police Protection	13.5	13.4	-1.3%	0.8%	13.5	1.2%	13.6	1.2%	13.8	1.2%	14.0	1.2%	14.1
12 Libraries	5.3	5.3	-1.3%	0.8%	5.3	1.2%	5.4	1.2%	5.4	1.2%	5.5	1.2%	5.6
13 Health Services Case Formula	6.3	6.1	3.6%	3.6%	6.3	2.8%	6.5	2.5%	6.6	2.5%	6.8	2.5%	7.0
14 Mass Transit	27.8	22.8	3.6%	3.6%	23.6	2.8%	24.3	2.5%	24.9	2.5%	25.5	2.5%	26.1
15 Public Schools	399.3	399.3	1.2%	1.2%	404.1	3.9%	419.7	2.3%	429.4	2.3%	439.4	2.3%	449.6
16 Community College	31.5	30.1	2.4%	7.3%	32.3	2.5%	33.1	2.5%	33.9	2.5%	34.8	2.5%	35.7
17 Direct Reimbursements	26.0	26.0	2.9%	4.0%	27.1	3.4%	28.0	3.1%	28.9	3.1%	29.8	3.1%	30.7
17a Direct Reimb: DSS Services	0.0	0.0	n/a	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
18 Other	12.6	11.8	2.9%	4.0%	12.3	3.4%	12.7	3.1%	13.1	3.1%	13.5	3.1%	14.0
19 Subtotal State Aid	562.0	550.5	-0.2%	1.9%	560.8	3.4%	580.0	2.3%	593.2	2.3%	606.7	2.3%	620.5
20 Federal Aid	1.6	1.6	1.5%	2.0%	1.7	1.7%	1.7	1.5%	1.7	1.5%	1.7	1.5%	1.8
21 Total Intergovernmental Aid	563.6	552.2	-0.2%	1.9%	562.5	3.4%	581.7	2.3%	594.9	2.3%	608.4	2.3%	622.3
<b>FEES AND FINES</b>													
22 Licenses & Permits	12.9	12.9	1.5%	1.5%	13.1	1.5%	13.2	1.5%	13.4	1.5%	13.6	1.5%	13.9
23 Charges for Services	52.2	52.2	2.9%	2.9%	53.7	2.2%	54.9	2.0%	56.0	2.0%	57.1	2.0%	58.2
24 Fines & Forfeitures	26.1	26.1	1.6%	1.6%	26.5	1.6%	26.9	1.6%	27.4	1.6%	27.8	1.6%	28.2
25 Montgomery College Tuition	68.6	68.6	12.2%	12.2%	76.9	5.6%	81.2	5.4%	85.6	5.4%	90.2	5.2%	94.9
26 Total Fees and Fines	159.7	159.7	6.6%	6.6%	170.2	3.6%	176.3	3.5%	182.4	3.5%	188.8	3.4%	195.3
<b>MISCELLANEOUS</b>													
27 Investment Income	14.6	7.8	-44.1%	5.0%	8.2	65.9%	13.6	38.3%	18.8	29.7%	24.4	9.2%	26.6
28 Other Miscellaneous	13.3	13.3	3.6%	3.6%	13.7	2.8%	14.1	2.5%	14.5	2.5%	14.8	2.5%	15.2
29 Total Miscellaneous	27.9	21.1	-21.4%	4.1%	21.9	26.4%	27.7	20.1%	33.3	17.9%	39.2	6.7%	41.8
30 TOTAL REVENUES	3,776.3	3,669.9	-0.4%	2.5%	3,760.7	5.3%	3,960.9	4.8%	4,153.0	4.9%	4,355.3	4.6%	4,553.8
31 S Change from prior Budget	207.8	101.4			(15.6)		200.2		192.1		202.3		198.6

**PROJECTED TOTAL USES OF RESOURCES (COMBINED USES)**

(\$ Millions)

A USE OF RESOURCES	B App. FY09	C Est. FY09	D % Chg. FY09-10	E % Chg. FY09-10	F Rec. FY10	G % Chg. FY10-11	H Projected FY11	I % Chg. FY11-12	J Projected FY12	K % Chg. FY12-13	L Projected FY13	M % Chg. FY13-14	N Projected FY14	O % Chg. FY14-15	P Projected FY15
	5-13-08	12-02-08	Rec / Bud	Rec / Est	12-02-08										
1 Total Resources															
2 Revenues	3,776.3	3,669.9	-0.4%	2.5%	3,760.7	5.3%	3,960.9	4.8%	4,153.0	4.9%	4,355.3	4.6%	4,553.8	4.6%	4,762.1
3 Beginning Reserves Undesignated	142.9	156.3	-115.8%	-114.5%	(22.6)	-541.6%	99.9	19.7%	119.6	11.4%	133.2	9.5%	145.8	8.5%	158.3
4 Beginning Reserves Designated	6.2	6.7	5.2%	-2.3%	6.6		6.8		6.5		5.6		5.9		6.2
5 Net Transfers In	33.3	33.3	-20.1%	-20.1%	26.6	2.8%	27.3	2.5%	28.0	2.5%	28.7	2.5%	29.4	2.5%	30.1
6 Total Resources	3,958.8	3,866.2	-4.7%	-2.5%	3,771.2	8.6%	4,094.8	5.2%	4,307.0	5.0%	4,522.7	4.7%	4,735.0	4.7%	4,956.7
7 \$ Change from prior Budget	100.4	7.8			(187.6)		323.6		212.2		215.7		212.2		221.7
8 Uses: Non-Agency															
9 Capital Investment (a)															
10 Debt Service: GO Bonds for all Agys.	230.6	230.6	11.8%	11.8%	257.8	7.5%	277.1	6.8%	296.0	7.4%	317.9	5.6%	335.7	0.0%	335.7
11 Debt Service: Local Parks	4.7	4.7	0.0%	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7	0.0%	4.7
12 Debt Service: Leases	17.4	17.4	29.4%	29.4%	22.5	8.0%	24.3	3.7%	25.2	-1.8%	24.7	-4.6%	23.6	0.0%	23.6
13 CIP Current Revenue	46.3	46.3	8.3%	8.3%	50.1	-30.3%	34.9	-14.5%	29.9	42.7%	42.6	45.1%	61.8	0.0%	61.8
14 CIP Paygo	5.4	5.4	454.9%	454.9%	30.0	0.0%	30.0	0.0%	30.0	0.0%	30.0	0.0%	30.0	0.0%	30.0
14a CIP Paygo Rec Tax	0.0	0.0	0.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
15 Sub-total Capital	304.4	304.4	20.0%	20.0%	365.1	1.6%	371.0	4.0%	385.8	8.9%	420.0	8.5%	455.8	0.0%	455.8
16 Other Uses															
17 Set Aside: Potential Supplementals	0.0	39.9			0.0		23.1		23.1		23.1		23.1		23.1
18 Set Aside: Other Claims	2.6	2.6			2.5		2.5		0.0		0.0		0.0		0.0
19 Revenue Stabilization Fund	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
20 Sub-total Other	2.6	42.5			2.5		25.7		23.1		23.1		23.1		23.1
21 Reserves															
22 Revenue Stabilization Fund	119.6	119.6	0.0%	0.0%	119.6	0.0%	119.6	0.0%	119.6	0.0%	119.6	0.0%	119.6	0.0%	119.6
23 Reserve Undesignated	108.0	(22.6)	-7.5%	-541.6%	99.9	19.7%	119.6	111.4%	133.2	9.5%	145.8	8.5%	158.3	8.4%	171.6
24 Reserve Designated	8.7	6.6			6.8		6.5		5.6		5.9		6.2		6.2
25 Sub-total Reserves	236.3	103.6	-4.2%	118.4%	226.3	8.6%	245.7	5.2%	258.4	5.0%	271.4	4.7%	284.1	4.7%	297.4
26 Less Revenue Stabilization Fund	(119.6)	(119.6)	0.0%	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)	0.0%	(119.6)
27 Less Designated Reserve	(8.7)	(6.6)			(6.8)		(6.5)		(5.6)		(5.9)		(6.2)		(6.2)
28 Sub-total Undesignated Reserves	108.0	(22.6)	-7.5%	-541.6%	99.9	19.7%	119.6	11.4%	133.2	9.5%	145.8	8.5%	158.3	8.4%	171.6
29 Total Uses: Non-Agency	423.6	330.8	12.0%	43.4%	474.3	10.2%	522.7	4.8%	547.7	8.6%	594.8	8.2%	643.4	2.1%	656.7
30 Uses: Available for Agency Services	3,535.2	3,535.4	-6.7%	-6.7%	3,296.9	8.3%	3,572.1	5.2%	3,759.3	4.5%	3,927.9	4.2%	4,091.6	5.1%	4,300.0
31 \$ Change from prior Budget	151.3	151.5			(238.2)		275.2		187.2		168.6		163.7		208.4

(a) See separate displays elsewhere in this book for allocation of Debt Service and CIP Current Revenue by Agency (A-3 Schedule).

(b) FY09-14 Debt Service, PAYGO, and CIP Current Revenue as approved by the County Council on May 22, 2008.



OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett  
County Executive

Timothy L. Firestine  
Chief Administrative Officer

MEMORANDUM

December 17, 2008

TO: Department Heads and Regional Services Center Directors

FROM: Timothy L. Firestine, Chief Administrative Officer

SUBJECT: FY09 and FY10 Required Operating Budget Actions

Due to worsening economic conditions which have resulted in a reduction in estimated FY09 and FY10 revenues of over \$270 million, it will be necessary to take additional actions to remain within a positive fund balance position for the County Government in FY09 and produce a balanced and fiscally responsible budget in FY10. In addition to the revenue reductions already recognized, we are expecting even more significant reductions in State Aid due to the State's worsening fiscal outlook. The State has reduced its revenue estimates this week and project a nearly \$2 billion deficit for FY10. Given that nearly 15% of the County's tax supported revenues are received from the State, this has troubling implications for Montgomery County.

**Hiring Freeze**

All positions that are funded by proprietary funds and grants are now subject to the hiring freeze. This is necessary to preserve vacancies for County employees to be transferred into in the event that their position is abolished.

**FY09 Savings Plan**

There are no plans currently to expand the FY09 Savings Plan from its approved level. However, we have initiated efforts to expand and expedite the liquidation of prior year encumbrances to identify additional savings. The Office of Management and Budget (OMB) will be working closely with you and your budget staff to monitor FY09 expenditures to ensure that Savings Plan targets will be achieved. Departments are encouraged to take every possible step to reduce expenditures beyond what is outlined in the approved Savings Plan including

reducing all discretionary spending such as travel, conferences, promotional items, training, and other miscellaneous, non-mandated expenditures. Because of pending State reductions and the potential for the County to write down current year projected revenues, it may be necessary to institute further mid-year cost reduction efforts.

### **FY10 Operating Budget**

We are asking for reductions of 7% for Non-Public Safety tax-supported departments, 5% for proprietary funds, and 3.5% for Public Safety Departments and the Department of Health and Human Services. These reductions are assessed against your FY10 MARC and are in addition to the reductions identified in your FY10 budget submissions. Reductions identified must be consistent with the following criteria:

1. Alignment with the County Executive's priority results and values.
2. Emphasize ongoing savings as opposed to one-time savings (e.g. position abolishments instead of lapse).
3. Preserve:
  - a. direct public safety services and services for the most vulnerable; and
  - b. core and Federal or State mandated services.<sup>1</sup>
4. Reduce administrative and overhead costs through centralizing and sharing services within a Department or across Departments
5. Reduce or eliminate entire programs, rather than across-the-board weakening of all programs.
6. Use performance data (departmental headline measures and program level measures) to identify and triage:
  - a. high performing and low performing programs; and
  - b. cost ineffective programs (e.g. where per client costs are unacceptably high relative to the benefits provided).

You should assume that in light of the County's fiscal conditions, all submitted reductions will be approved. In addition to this, OMB will be identifying additional "top-down" directed reductions that will provide the County Executive with other options for balancing the FY10 budget. These reductions will not be identified until after departmental target reductions are submitted.

Reductions should be transmitted to OMB by close of business on January 15, 2009. Additional instructions will be provided by OMB on the format and other submission requirements.

---

<sup>1</sup> However, if a change to local law is required to implement a recommended reduction, please include the appropriate legal citation and the text of the relevant portion of local law.

## **Conclusion**

The level of reductions required will result in positions being abolished including filled positions. I realize that this uncertainty places a great deal of stress on our employees as they focus on the possible impact of layoffs. It is important that you reassure them that the County has a great track record placing affected employees in vacant positions. I appreciate your continued leadership, resourcefulness, and collaborative spirit under these difficult circumstances.

TLF: jb

c: Isiah Leggett, County Executive  
Phil Andrews, President, County Council  
Judge Ann S. Harrington, Administrative Judge, Circuit Court  
Sheriff Raymond M. Kight  
John McCarthy, State's Attorney  
Stephen B. Farber, County Council Staff Director  
Legislative Branch Department Heads  
OMB Managers and Staff  
Administrative Services Coordinators and Functioning Equivalents